The Application of IAS 39 Reclassifications by Global Systemically Important Banks (G-SIBs) Since 2008/2009

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Declaration

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Dedication

To my loved family:

I dedicate this research paper to my two beautiful daughters, Maatla Seete and Arona Seete, for enduring most part of the two years of my studying without me at their side. I have missed the important milestones of your childhood development, but in the two years of my absence you have made me a strong, better and more dedicated mother than I could have ever thought. I also dedicate the research to my loving husband, Poloko Seete for being my number one cheerleader and for the constant support during my time of studying. Your love, humility, constant encouragement and powerful prayers have seen me through the most difficult days when I felt discouraged. I am forever indebted to the three of you.

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Abstract

The International Accounting Standard Board (IASB) introduced an amendment to the *International Accounting Standard 39 – Financial Instruments: Recognition and Measurement* (IAS 39) and to *International Financial Reporting Standard 7 – Financial Instruments: Disclosures* (IFRS 7) on 13 October 2008. These amendments allowed entities to reclassify non-derivative financial assets from the fair value option to historical cost. The purpose of this study is to explore how Global Systemically Important Banks (G-SIBs) applied the amendment to IAS 39 since 2008/2009. The study is guided by four main objectives in which the first two objectives explores how the G-SIBs applied the reclassifications during the allowed period, 2008/2009 and the period beyond 2009 when the application of the standard should have been stopped. The study further investigates if any G-SIBs used restatements to circumvent the requirements of the IAS 39 that does not allow reclassifications into and out of the 'designated as at fair value' category. Finally, the study explores the impacts of the reclassifications on the G-SIBs' ROE and total regulatory capital with the aim to determine if G-SIBs reaped any long-term benefits from the reclassifications and whether any traces of earning and capital management exist in the way G-SIBs applied the amendment to IAS 39. To achieve these objectives a comparative case study approach, which is qualitative in nature/scope was used with 10 G-SIBS forming part of the units of the analysis of the study. The study finds that: (i) 70 percent of G-SIBs reclassified assets during 2008/2009; (ii) a significant improvement on the reported net income was observed with a slight improvement on the return on equity and regulatory capital during 2008/2009, while the long-term impacts on ROE and total capital are insignificant; and (iii) G-SIBs did not restate comparative figures to evade the prohibition on reclassifications into and out of the 'designated as at fair value' category. As far as can be reasonably established, this kind of study has not been published before for G-SIBs. As such, the study contributes by including the analysis of G-SIBs and the long-term implications of applying the amendment to IAS 39 to the current literature, as well as adding another possible type of a restatement to the financial restatements' literature. All these aspects are currently lacking in the existing literature.

KEYWORDS: Capital Management, Earnings Management, Fair value accounting, G-SIBs, IAS 39, net income, reclassifications, regulatory capital, restatements.

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List of Acronyms/Abbreviations

AFS: Available-for-Sale

BCBS: Basel Committee on Banking Supervision

FASB: Financial Accounting Standard Board

FSB: Financial Stability Board

FVA: Fair Value Accounting

FVO: Fair Value Option

FVTPL: Fair Value through Profit and Loss

GAAP: Generally Accepted Accounting Principles

G-SIBS: Global Systemically Important Banks

HFT: Held-for-Trading

HTM: Held-to-Maturity

IAS 39: International Accounting Standard 39 – Financial Instruments: Recognition and Measurement

IAS 8: International Accounting Standard 8 – Accounting Policies, Changes in Accounting Estimates and Errors

IASB: International Accounting Standard Board

IFRS 7: International Financial Reporting Standard 7 – Financial Instruments: Disclosures

IFRS 9: International Financial Reporting Standard 9 – Financial Instruments

LAR: Loans-and-receivables

LLPs: Loan Loss Provisions

OCI: Other Comprehensive Income

PRC: People Republic of China

RBS: Royal Bank of Canada

SEC: Securities Exchange Committee

SFAS: Statement of Financial Accounting Standard

TBTF: Too-big to fail

TITF: Too important to fail

US: United States of America

1. Introduction

As the financial crisis deepened in the latter half of 2008, a heated debate erupted concerning how the value of financial instruments is measured by banks. Financial institutions disputed that the use of fair value accounting, as emphasised by the requirement to measure certain financial instruments at fair value consistent with IAS 39 and the reclassification options to reclassify financial instruments to fair value in line with the Statement of Financial Accounting Standard (SFAS) 157, have introduced unnecessary volatility in the financial statements which compelled institutions to write-down substantial amount of their financial holdings during the period of economic downturn (Duh, Hsu and Alves, 2012). Arguments regarding the use of fair value accounting included the impacts of the pro-cyclicality of fair value in which the impacts of fair value accounting are acceptable during boom times when the earnings volatility contributes to increased profitability but rejected during market downturns when it results in losses (De Jager, 2010).

When the crisis deepened, the banking industry became hard hit because of their substantial holdings of financial instruments by banks and, therefore, needed some form of relief. The Securities Exchange Committee (SEC) and the Financial Accounting Standard Board (FASB) however, responded with a statement detailing how to implement SFAS 157 with regards to fair value measurement, which only brought some form of relief for the United States (U.S) banks as it allowed them to forgo the use of fair value in inactive markets (Fiechter, 2011). This movement fuelled political pressure on IASB and the European Commission, as European banks called for a levelled playing field which allows for the same accounting treatment of financial instruments as their U.S counterparts. The IASB eventually responded to the mounting pressure from bank managers, bank regulators and politicians by introducing an amendment to IAS 39 and IFRS 7 in October 13, 2008 at short notice without following the regular due process. The amendment allowed entities to reclassify non-derivative financial assets that were originally categorised as 'held-for-trading' or 'available-for-sale' and measured at fair value, to 'held-to-maturity' assets that are measured at amortised cost under certain conditions (Schwarz , Karakitsos, Merriman and Studener, 2014).

This amendment attracted a lot of research examining the determinants of banks' decisions to reclassify financial assets under IAS 39 amendment (Fiechter, 2011; Paananen, Renders and Shima, 2012; Quagli and Ricciardi, 2010). The studies examined whether banks were motivated to adopt the amendment to reclassify financial assets to enhance their capital adequacy ratios or the amendment was adopted by banks with earnings management motives. Fiechter (2011), Paananen et al (2012) and Quagli and Ricciardi (2010) found that banks that adopted the amendment avoided significant fair value losses and also reported higher capital adequacy ratios. Furthermore, banks that were on the verge of violating the minimum required capital ratio tend to have adopted the reclassification amendment (Paananen et al, 2012; Bischof, Bruggemann and Daske, 2012). Lim, Lim and Lobo (2013), find that the reclassification choice under the revised IAS 39 reduced the analysts' ability to forecast earnings accurately and also increased the forecast dispersion. Using a sample of major European banks, Kholmy and Ernstberger (2010) find that the reclassifications of financial assets is influenced by the size of the bank, profitability, analysts' thresholds and by banking laws of the entity's home country. Furthermore, they also find that, large banks that experienced a decline in profitability are likely to reclassify financial assets (Kholmy and Ernstberger, 2010).

Previous studies mentioned above, conducted their research on the entire population of banks without classifying banks into their systemic importance. Fiechter, Landsman, Peasnell and Renders (2017)'s study is the only one that examined the adoption of the amendment to IAS 39 by what is deemed the too important to fail (TITF) banks. Their results argue that TITF banks took less advantage of the reclassification opportunity because they were more likely to enjoy political protection and regulatory forbearance in the event that their regulatory capital fell below the stipulated minimum (Fiechter et al, (2017). The sample of banks deemed TITF used by Fiechter et al (2017) comprises of two groups of banks; those that are deemed too-big to fail (TBTF) and those domiciled in 'no-fail' countries. The TBTF banks are those banks that are so large and interconnected that their failure can be disastrous to the larger financial system and therefore, are supported by the government when they face potential failure. The sample of banks studied by Fiechter et al (2017) considers banks that are considered TBTF specifically to the European banking system and these banks comprises of other banks that are not considered to be globally systemic. On the other hand, the banks

that are domiciled in 'no-fail' countries are those situated in countries where no bank will be allowed to fail irrespective of the size of the bank (Fiechter, 2017). This study finds an existing gap in the literature in that the existing research has neglected studying how global systemically important banks (G-SIBs) applied the IAS 39 amendment. The study therefore, argues that some banks included in Fiechter et al (2017)'s sample are not globally large, systemic or important and hence, they may not have any impact on the global economic system should they fail since they have been included in the sample because they are important to the European economic system or by virtue of being located in countries where a bank is not allowed to fail. Kholmy and Ernstberger (2010) reports that the reclassification amendment is likely to be adopted by large banks whose profitability had plummeted and this to some extent makes it interesting to extend the existing literature by exploring how large systemically important banks, G-SIBs, applied the IAS 39 amendment during and after the 2008/2009 financial crisis.

According to the Financial Stability Board, FSB (2011:1), Global Systemically Important Banks, also called systemic banks, are defined as "financial institutions whose distress or disorderly failure, because of their size, complexity and systemic interconnectedness, would cause significant disruption to the wider financial system and economic activity." The severity of the 2008 global financial crisis, followed by the collapse of Lehman Brothers became a wakeup call for financial regulators and policy makers to prioritise regulatory matters concerning the too big, too complex and too interconnected to fail banks and this resulted in the FSB in conjunction with Basel Committee on Banking Supervision (BCBS) publishing an initial list of banks considered as global systemically-important in 2011 (Peterson and Arun, 2018). This study makes use of the available systemic classification published by FSB in conjunction with BCBS to investigate how G-SIBs used the IAS 39 amendment during and after the financial crisis.

The study argues that, because G-SIBs are large in size and have larger holdings of riskier assets, they were highly exposed to substantial fair value losses during the financial crisis than any other non-systemic banks. Due to this greater exposure, they may have not been willing to recognise substantial fair value losses and hence, the amendment to IAS 39 worked in their favour to avoid substantial fair value losses. The study argues against Fiechter et al (2017)'s

premise that the TITF banks are not incentivised to adopt the reclassification option because they enjoy taxpayer protection as well as regulatory leniency should regulatory capital decline below the minimum required level because of the simple fact that government intervention can come at a cost to the G-SIBs. Receiving government bailouts may expose G-SIBs to greater scrutiny from regulators, which could dent the banks reputation and public image. A damaged reputation has greater impact on how investors and depositors view the banks, which can have negative consequences for the banks. Managers also have self-interests which they are bound to protect because bad publicity can result in senior managers losing their jobs as well as government administrators taking over the management of the banks. Therefore, these costs associated with government intervention may motivate G-SIB managers to adopt the reclassification option which has a potential to relieve banks from reporting substantial fair value losses and thus, resulting in increased net income and regulatory capital.

Another motivation for studying the G-SIBs is that, G-SIBs activities have a potential to affect global economic stability. Bank supervisors rely on reported income or earnings figures to judge the stability of banks and this may put pressure on G-SIBs to behave in a certain manner to accomplish the goals of financial system stability enforced by bank supervisors. As a result, G-SIBs can enhance their financial reporting to paint a picture that depicts stable earnings over time and to improve regulators' opinion about their performance and stability. Therefore, policy amendment such as IAS 39 provides such an opportunity to banks to look-back into their financials figures with the intention to make them appear healthy by applying the amendments retrospectively.

The purpose of the study is to explore how G-SIBs applied the reclassifications amendment during the allowed period, 2008/2009 and the period beyond 2009 when the application of the standard should have been stopped. When exploring how G-SIBs applied the reclassification option during and after the 2008/2009 financial crisis, the study identifies three unique ways in which the reclassifications can be applied, which are basically the main focus of this study. The study is guided by four main objectives. The first objective of the study to explore how G-SIBs applied the reclassification option during the allowed period, the 2008/2009 period by exploring the common types of reclassification choices applied by G-SIBs during the period. The second objective is to explore how G-SIBs applied the amendment

during the period that can be deemed as the 'not allowed' period, which is the period beyond 2009, when the application of the dispensation should have stopped following the gradual introduction of the IFRS 9. In this case, the study intends to find out the motives for the application of the dispensation after the allowed period. The third objective of the study is to investigate if any G-SIBs applied restatements to reclassify financial assets as observed in some non-systemic banks wherein they used restatements to circumvent the requirements of the IAS 39 amendment that does not allow reclassifications into and out of the designated as at fair value category. Finally, the last objective is to determine whether the adoption of this amendment has an advantage in the long term and if the G-SIBs reaped any long-term benefits from the reclassifications. When determining the impacts of these reclassifications, the study restricts itself to finding the effects on the two main ratios in the banking industry, the return on equity (ROE) and total capital ratios, and further determines if any traces of earning and capital management exist in the way G-SIBs applied the amendment.

This study contributes to the existing literature on the reclassification choices of commercial banks (Fiechter, 2011; Kholmy and Ernstberger, 2010; Paananen, Renders and Shima, 2012; Quagli and Ricciardi, 2010) by exploring how the G-SIBs applied the IAS 39 amendment during the financial crisis, which has been lacking in the literature. In addition, the study contributes to the existing literature on the impacts of the reclassification choices by exploring if there are any long-term benefits reaped by the G-SIBs from the reclassifications. While a growing body of literature have examined the impacts of the IAS 39 reclassifications on commercial banks that applied the amended standard during the highly volatile period, no attention has been provided to the long-term effects of the reclassifications. Therefore, the study contributes to the accounting literature by exploring how the amendment to IAS 39 impacted the long-term performance of G-SIBs that reclassified financial assets during the volatile period. Therefore, the results of the study contribute to the accounting literature by illustrating how the amendment to IAS 39 impacted the long-term performance of G-SIBs that reclassified financial assets.

The study further contributes to the existing accounting literature on the types of financial restatements by exploring another possible type of a restatement that has never been explored before. This possible type of restatement involves restating previously reclassified

financial assets under the presumption that the initial classification was erroneous. The type of restatement is, therefore, a crucial aspect especially for accounting standard-setters and bank supervisors. It assists in raising awareness to accounting standard-setters and bank supervisors that entities can be on the look-out for loopholes in the accounting standards, which can be used to their advantage. For instance, using one standard to get around the prohibited requirements of another standard. In this case some banks managed to apply IAS 8 to circumvent the prohibition on the IAS 39 requirements. Therefore, this raises awareness for standard setters to be vigilant of such loopholes in future. This study differs from prior studies in that it focuses on the application of the amendment to IAS 39 by a group of banks considered to be systemically important to the global financial system and further attempts to find if there are any long-term benefits from the reclassification of financial assets.

The remainder of the study is organised as follows: Section 2 provides a theoretical overview of the earnings and capital management in the banking industry, the background around the amendment of IAS 39 as well as the techniques that financial institutions are found to apply in pursuit to manage earnings and regulatory capital. Section 3 outlines the research approach adopted by this study which includes the type of research design applied, the units of analysis selected for the research paper as well as the sources of data and how the data is analysed. The results of the study are presented in Section 4 and discussed in Section 5 where the study also attempts to generalise the results to theory. Lastly is Section 6 with limitations and recommendations for future research as well as the conclusion.

2. Literature Review

This section starts by reviewing the general literature on earnings management, discussing the motives for engaging in earnings management practices which is eventually narrowed to the banking industry to provide a broad overview of the prevalence of earnings management in the banking industry. It also includes the prevalence of capital management and the techniques applied by banks to execute both earnings and capital management motives, especially those techniques associated with the discretion granted by accounting standards. The discussion then extends to the literature on fair value accounting, reviewing the problems

associated with fair value accounting that lead to the revision of IAS 39 and eventually the reclassification of financial assets during the economic meltdown. The literature provides a better understanding of IAS 39 by providing an overview of the classifications of financial instruments under the IAS 39, the allowed reclassifications prior to the amendment, as well as the reclassifications under the reviewed IAS 39. It also provides the theoretical review of the 2008/2009 reclassifications, then attempts to draw a link between the adoption of the amendment to IAS 39 and earnings and capital management motives. Finally, the section concludes by discussing the ways in which 2008/2009 reclassifications can be applied.

2.1 Earnings Management

Earnings Management is an important concept in accounting literature which has been extensively studied. Healy and Wahlen (1999:368) assert that, "earnings management occurs when managers apply judgement in financial reporting and in structuring transactions to alter financial reports to either mislead some stakeholders about the underlying economic performance of the firm or to influence contractual outcomes that depend on reported accounting numbers." This poses a question of the legality of this process, whether it is legal to engage in such manipulation of financial statements. Rahman, Monoruzzaman and Sharif (2013:23) explains the process as "reasonable and legal management decision-making and reporting intended to achieve stable and predictable financial results."

The extensive literature on earnings management provides various motives for listed firms to manage earnings, which include among others the three main motives which are, to satisfy and exceed projections of analysts and investors (Degeorge, Patel and Zeckhauser, 1999); to avoid reporting earnings decreases and losses (Burgstahler and Dichev, 1997); to report increases in earnings (Burgstahler and Dichev, 1997). Non-listed firms also see earnings management as important (Coppens and Peek, 2005; Burgstahler, Hail and Leuz, 2006; Hope, Thomas and Vyas, 2013). Beatty, Ke, and Petroni (2002), Burgsthaler and Dichev (1997), Burgstahler and Eames (2006), Charoenwong and Jiraporn (2009) and Degeorge et al (1999), document a higher proportion of firms meeting these three thresholds to avoid negative surprises to investors and analysts. Several other authors such as Brown (2001), Brown (2003)

and Matsumoto (2002) concur and have also discovered increasing cases of firms meeting or beating these benchmarks. Related to this field of research, Barth, Elliott and Finn (1999), DeAngelo, DeAngelo and Skinner (1996) and Skinner and Sloan (2002) document the adverse price reactions in response to missing these targets.

The pressure to meet analysts' forecasts plays a major role in incentivising managers to exhibit earnings management behaviour. Analysts expect firms to meet their forecasts and never to deviate even by the smallest margin. Managers are as such, pressurised to impress analysts and investors, lest they assume the worst about the firms' performance for missing the targets. The pressure causes managers to desire to meet or beat some analysts' thresholds (Burgstahler and Eames, 2006). In a distribution of earnings surprises, Burgstahler and Eames (2006) find a remarkably higher frequency of zero (meeting the analysts' estimates exactly) to small positive (beating the analysts' estimates) forecast errors which provides evidence that managers are incentivised to meet or beat analysts' targets. Degeorge et al (1999) substantiate the evidence by illustrating that managers tend to manage earnings that fell just short of these thresholds by increasing them to a level that equals or slightly exceeds analysts' forecasts, while those far from the thresholds are reigned in to make them more achievable in the future. Consistent with the evidence, Brown (2001) also presents a distribution of earnings surprises fluctuating from small negative to small positive. In his further research, Brown (2003) argue that, managers are less inclined to report earnings that fall slightly below analysts' estimates due to unfavourable valuation consequences of reporting negative earnings surprises. Using a sample of 250 Malaysian initial public offering firms over the period 1990 to 2003, Ahmad-Zaluki, Campbell and Goodacre (2011) find evidence of managers revising earnings upwards to beat benchmarks to portray a healthy image of the firms' performance to investors during periods of economic stress (the East Asian Crisis). These studies taken together, demonstrate why managers are prompted to apply whatever available techniques to manage earnings. It is for this reason that this study intends to establish if G-SIBs' managers were also incentivised to adopt the IAS 39 amendment to manage their earnings due to the difficult economic environment to which they were subjected to

Burgstahler and Dichev (1997) argue that managing earnings to avoid reporting losses or decline in earnings, and to report earnings increases is common in many firms. Anecdotal evidence suggests a strong incentive to avoid reporting losses but to report a trajectory of earnings increases which is evidenced by managers' emphasis in the opening sentences of most management discussions section of the annual reports[1], press releases or earnings announcements[2] (Burgstahler and Dichev, 1997). Burgstahler and Dichev (1997) present evidence from their research which indicates that firms that recognise small pre-managed earnings decreases are likely to manage earnings upwards to attain earnings increases, while those with recognised small losses also manipulate reported net income upwards to avoid reporting losses. The evidence suggests a strong incentive to avoid reporting losses or negative earnings, but to maintain reporting increases in net income.

Barth et al (1999) demonstrated that firms that have reported a series of consistent earnings increases are likely to exhibit higher price-to-earnings multiples or are priced at a premium and that, when this pattern of increasing earnings is broken, the premium is eliminated or reduced substantially. Likewise, DeAngelo et al (1996) find that breaking this pattern of constant earnings growth results in firms experiencing a decline of about 14 percent in the stock return in the year in which the consistent pattern is broken. Moreover, Skinner and Sloan (2002) and Kinney, Burgstahler and Martin (2002) provide empirical evidence that stocks reporting adverse earnings news or small earnings surprises tend to exhibit substantial negative abnormal stock returns. This strongly attests to why managers are incentivised to manipulate earnings to avoid losses, to keep up with positive trends of past earnings performance and to meet analysts' expectations, perhaps because large stock penalties would consequently affect their compensations (annual bonuses) should they fail to meet the thresholds.

Examples taken from Burgstahler & Dichev, (1997)

[1]CEO Dana Mead stated in Tenneco's 1994 annual report that, "I must emphasise that all of our strategic actions are guided and measured against this goal of delivering consistently high increases in earnings over the long term" (Burgstahler & Dichev, 1997:99).

[2]In the release of 1994 earnings, Bank of America's CEO Richard Rosenburg commented that, "Increasing earnings per share was our most important objective for the year" (Burgstahler & Dichev, 1997:100).

Due to the uncertain economic environment and the riskier assets held by G-SIBs, the fair value losses that can be suffered by these banks are substantial compared to any other non-systemic bank. Deteriorated earnings mean analysts thresholds and internal earnings targets are likely to be missed which could send a negative signal to potential investors. Moreover, large as G-SIBs are and could be assisted by their respective governments when they are likely to fail, regulators and public scrutiny is likely to haunt them. The question then is, could IAS 39 amendment have presented a scapegoat technique for G-SIBs to avoid realising substantial fair value losses during the financial crisis as well as after the crisis as the aftereffects of the adoption of the revised standard. This makes an interesting exploration to conduct to find out the motives for the adoption of the amendment and how G-SIBs have specifically applied it.

2.2 Earnings and Capital Management in the Banking Industry

The earnings management motives discussed above apply to banks as well. Beatty et al (2002), compared small changes in earnings of publicly held banks against privately held banks during the period 1987 to 1998 to determine whether these banks also exhibited signs of earnings management as evidenced in public firms by Burgstahler and Dichev (1997) and Degeorge et al (1999). They concluded that public banks also reported more small increases and fewer small declines in earnings than anticipated, while privately held banks reported only slightly fewer small declines in earnings than expected (Beatty et al, 2002). Moreover, public banks were found to be less likely than private banks to report declines in earnings (Beatty et al, 2002) which also corroborate with evidence that firms manage earnings to meet analysts' forecasts. Similarly, using a sample of listed and unlisted US commercial banks from 1996 to 2001, Barth et al (2017)'s results that banks with negative earnings avoid reporting losses as a way of managing earnings, is consistent with Beatty et al (2002)'s results. Charoenwong and Jiraporn (2009) also report that banks in Singapore and Thailand also exhibit earnings management behaviour wherein they avoid reporting losses and negative earnings.

Due to regulatory capital requirements imposed on banks, banks with lower regulatory capital ratios are incentivised to increase regulatory capital or at least avoid substantial decline in

capital (Barth, Gomez-Biscarri, Kasznik and López-Espinosa, 2017). Consequently, banks are likely to manage earnings to accomplish maintenance of minimum regulatory capital. The basic premise of banks being incentivised to engage in capital management arises from the conflict to balance the expected regulatory costs with the opportunity costs of excess regulatory capital. Failure to meet the minimum regulatory capital can be costly for banks, as it can call for regulatory interventions, while holding excess capital is also costly as it forgoes investment returns that could be generated if the idle capital was invested elsewhere. Therefore, this creates a conflict for banks to strike a balance between the two costs. Moyer (1990) concurs that banks' managers are incentivised to avoid or reduce regulatory costs imposed on banks for violating minimum regulatory capital ratio. Banks were mostly hit hard by the financial crisis, which resulted in most banks violating the minimum required regulatory capital threshold. However, banks that reclassified improved their capital ratios (Paananen et al, 2012) and the study intends to find out if the pattern exists as well among G-SIBs.

It can also be argued that the impact of solvency risk is a driving factor for capital management decisions. Bank insolvency is an indication of a higher probability of bankruptcy, hence, the need for banks to maintain a minimum regulatory capital as a primary cushion against unanticipated losses. Moreover, regulatory capital reduces agency conflicts between shareholders, depositors, creditors and guarantors (Leventis, Dimitropoulos and Anandarajan, 2011). Adequately capitalised banks provide assurance to depositors and creditors that the bank is sound and safe and thus, the capital subsequently determines the security of banks. Otherwise, depositors and creditors would demand higher deposit and lending interest rates, respectively, from inadequately capitalised banks. Similarly, Leventis et al (2011) posit that, banks' capital is important for creating market confidence about the banks' ability to handle uncertainty. In a nutshell, bank capital boosts market confidence. Therefore, this suggests that banks with high levels of insolvency risk have higher incentives for manipulating earnings in order to manage banks' capital. Since G-SIBs have a larger holding of riskier assets, they can easily get closer to capital limit than other banks and would likely require more capital management as a result.

Earnings management and capital adequacy ratios are essentially linked (Leventis et al, 2011), and it can be difficult to separate a bank's demand for increased earnings from its demand for managing regulatory capital because earnings are a source of best capital. As such, the accounting choices employed to manage earnings are often the same accounting choices used by banks to manage capital adequacy ratios. Beatty, Chamberlain and Magliolo (1995) argue that bank managers are incentivised to manage regulatory because regulators monitor banks using accounting-based capital measures. Pinto and Ng Picoto (2018) also contend that banks are incentivised to use the discretion accorded by accounting policies and standards to manipulate reported earnings and capital.

Extensive research indicates that earnings and capital management can occur through two different strategies: (1) through accounting choice[3] and (2) through the manipulation of real activities[4] (Kothari, Mizik and Roychowdhury, 2016; McNichols and Wilson, 1988; Zang, 2012). Previous studies gave much attention to public firms than the banking industry because of the presumption that the banking industry is heavily regulated. However, those that investigated earnings and capital management in the banking industry focused on the use of discretionary accruals to manage bank accounting figures such as earnings and regulatory capital. Enomoto, Kimura and Yamaguchi (2015) argue that, since managers' different estimates and judgements form part of the accruals process when they prepare financial statements, managers can opportunistically manage earnings by changing the accrual process.

Various methods or techniques can be applied by banks' managers to manage earnings as well as regulatory capital. Zhao (2019) lists methods applied to consist of, among others, managing loan loss provisions (LLPs), selective selling of available-for-sale securities, timing of securitisation transactions and biasing fair value estimates. Most extant studies have demonstrated that listed banks use LLPs for both earnings and capital management (e.g.,

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[3]Earnings management that occurs through the accounting choice is referred to as Accrual-based earnings management. It entails, "changing accounting methods or estimates when presenting a given transaction in the financial statements, for example changing the depreciation method for fixed assets or changing estimates for provision for doubtful debts" (Zang, 2012:676).

[4]"Real activities manipulation is a purposeful action to alter reported earnings in a particular direction which is achieved by changing the timing or structuring of an operation, investment or financing transaction." Zang (2012:676).

Anandarajan, Hasan and McCarthy 2007; Beatty et al, 1995; Collins, Shackelford and Wahlen, 1995; Kanagaretnam, Lobo and Yang, 2004; Pérez, Salas-Fumás and Saurina, 2008). The banks put side a certain portion of the expected loan repayments as reserves for covering expected future losses on the banks' loan portfolios and since these reserves rely on management's judgement, they are susceptible to manipulation (Liu, Ryan, and Wahlen, 1997). However, prior studies provide mixed evidence concerning earnings and capital management through the use of LLPs.

The literature finds systematic use of management discretion to use of LLPs for managing earnings (e.g., Collins et al, 1995; Healy and Wahlen, 1999; Liu et al, 1997; Liu and Ryan, 1995; Pinto and Ng Picoto, 2018; Scholes, Wilson and Wolfson, 1990). However, the implementation of IFRS has greatly impacted the use of LLPs for earnings management (BCBS, 2015). Evidence presents a substantial decline in the use of LLPs to manage earnings, especially for high-risk banks which were greatly involved in earnings management before the adoption of IFRS (Leventis et al, 2011). However, the classification of high-risk banks and low-risk banks used by Leventis et al (2011) was not based on the banks systemic importance to the entire banking system.

While a considerable body of prior studies provide evidence on earnings management through the use of LLPs, the results for capital management are contradictory. The mixed conclusions existed even prior to the implementation of Basel I Accord in 1988. Prior studies, before the implementation of Basel I Accord, document that banks also used LLPs to manipulate the capital adequacy ratios (Beatty et al. 1995; Moyer 1990; Scholes et al, 1990). Beatty et al (1995) and Scholes et al (1990) report a negative relationship between LLPs and capital adequacy ratios which confirms the exhibition of capital management behaviour in banks. However, contrary to these studies, Collins et al, (1995) find no evidence of capital management behaviour.

After Basel 1 Accord was implemented, Ahmed, Takeda and Thomas (1999) found evidence of capital management in US banks when examining whether LLPs are used to manipulate capital adequacy ratios. Anandarajan, Hasan and Lozano-Vivas (2003) argue that the incentives for capital management are stronger for banks facing higher regulatory penalties

for violating minimum regulatory capital. Wahlen (1994) provides evidence that bank managers use their discretion over the time which they report LLPs in order to avoid regulatory capital constraints. Anandarajan et al (2007) find that the Australian banks also used LLPs to manage earnings. However, no capital management evidence was found in the Spanish banking industries (Anandarajan et al, 2003; and Pérez et al, 2008), because of tight Basel rules for LLPs by the Spain's national government (Pérez et al, 2008)[5]. Leventis et al (2011) argue that restrictions imposed by the Basel I Accord assisted in reducing banks incentives to manipulate capital adequacy ratios using LLPs.

Recent study by Peterson and Arun (2018) presents evidence that capital regulation and economic uncertainty may incentivise systemic banks to smooth income using some accounting figures, especially loan loss provisions. The study further finds a higher exhibition of income smoothing behaviour among G-SIBs in the post-crisis period (Peterson and Arun, 2018). However, profitable G-SIBs with sizeable non-performing loans, capital adequacy ratios exceeding the minimum required regulatory capital ratio and engaged in forward-looking LLPs were found to be susceptible to income smoothing during recessionary periods (Peterson and Arun, 2018). The implication of Peterson and Arun's study is that G-SIBs manipulate accounting figures through the discretion afforded to them by accounting policies in order to meet minimum regulatory capital thresholds. This suggests that during the unfavourable economic conditions, G-SIBs are more susceptible to earnings management activities. In addition to using LLPs, Beatty et al (1995) and Moyer (1990) find evidence that banks also use securities gains and losses to reduce earnings variability and to confirm earnings increase trend or to eliminate small earnings decreases, as well as manage capital. Scholes et al (1990) find that banks with low levels of regulatory capital tend to realise securities gains to increase book income and hence, boost regulatory capital. Since realising securities gains (postponing securities losses) result in increased book regulatory capital, it enhances banks' ability to attract deposits at lower rate of deposit because depositors view the bank as safe and sound (Scholes et al, 1990).

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[5]In Spain, loan loss reserves are counted as neither Tier 1 nor Tier 2 capital (Pérez et al, 2008:426).

Using a sample of listed and unlisted US commercial banks from 1996 to 2001, Barth et al (2017) find that the discretion that managers have over accounting for available-for-sale securities gains and losses allows banks to manage regulatory capital and earnings. These results are consistent with evidence from prior studies which suggests that banks use realised securities gains and losses to increase regulatory capital that have fallen below the minimum threshold (Moyer, 1990). Furthermore, Karaoglu (2005) finds that banks tend to use gains from loans whose market values are above their carrying values, as well as overvaluing retained interests from securitisation to enhance earnings and regulatory capital.

2.3 Fair Value Accounting

During the years of economic prosperity, before the global financial crisis, the IASB proposed a single method of measuring financial assets with the aim to reduce complexity in financial reporting, and, fair value accounting (FVA) was deemed to be the most appropriate method (Fiechter, 2011). Proponents of FVA contend that FVA is the most relevant method because it aligns the present economic conditions to the economic resources and obligations; it provides a faithful representation of the true value of financial assets and liabilities; and that it is a market-based measure that is unaffected by factors specific to an entity (Barth, 2007; Penman, 2007). Fiechter (2011) also explains that FVA was believed to have increased financial institution transparency, hence assisting investors to understand the banks' risk profile. Despite these merits associated with the use of FVA, the topic became a key issue in accounting debate (Walton, 2006).

At the peak of the 2008 financial crisis, excessive political pressure was exerted on IASB to revise the IAS 39, as the requirements for measuring certain financial assets were causing a major concern among bankers and politicians (Bengtsson, 2011). Critics contended that, fair value accounting was exacerbating the severity of the crisis by "increasing banks' earnings volatility as a result of recognising losses on securitised assets whose values had plunged" (Duh, Hsu and Alves, 2012:23) and that, an excessive write-down of financial assets values depleted bank capital (De Jager, 2010). De Jager (2010) explains that increased income

volatility caused by FVA tend to be welcomed during boom times because it contributes to higher profits, but during periods of downturns FVA is actively rejected because it leads to losses. During boom times, FVA increases banks' regulatory capital making banks appear like safe havens and less risky, hence, encouraging banks to increase their leverage (De Jager, 2010). However, during a liquidity crunch, observed market prices tend to deviate from assets' fundamental values and thus, writing down assets at these distorted prices depletes banks' capital (Laux and Leuz, 2010). These assets write-downs cause capital ratios to fall, resulting in banks deleveraging and selling further assets at distorted prices and thus, creating a downward spiral leading to contagion (Laux and Leuz, 2010). As such, bank regulators, bankers and politicians blamed fair value accounting for aggravating the impact of the 2008 financial crisis and hence, put pressure on IASB to revise IAS 39.

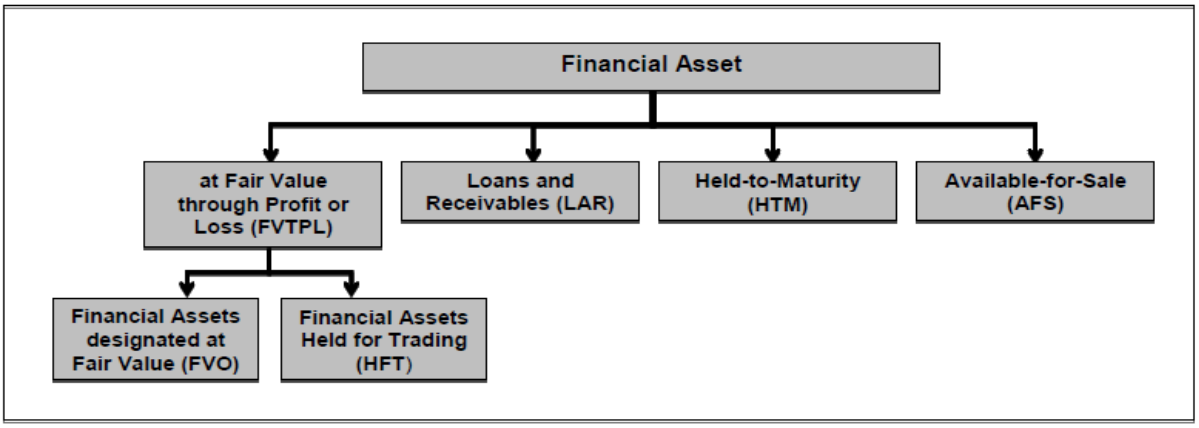
Responding to this political pressure and the intensifying financial crisis, the IASB introduced an amendment to IAS 39 on 13 October 2008 (Fiechter, 2011). The amendment was adopted by the European Commission to alleviate the effects of the crisis and provide the European entities the same flexibility as entities applying the United States Generally Accepted Accounting Principles (U.S GAAP). More specifically, the amendment allowed entities to reclassify non-derivative financial assets that were initially classified as 'held-for-trading' or 'available-for-sale' and measured at fair value, to 'held-to-maturity' assets that are measured at amortised cost, under certain circumstances (Schwarz et al, 2014). Allowing entities to reclassify their assets retrospectively from fair value to historical cost categories, was IASB's response to preventing the financial sector from crumbling. The amendment to IAS 39 provided a potential to relieve banks of the regulatory pressure they faced as a result of exposure to substantial future fair value losses.

2.4 The 2008/2009 Reclassifications

IAS 39 classified financial instruments into four categories as illustrated in figure 1 below. Trading securities (HFT) and financial securities designated at fair value option (FVO) are measured at fair value with fair value gains and losses recognised through profit and loss

(FVTPL). Loans and receivables (LAR) and marketable debt instruments classified as held-to-maturity (HTM) are measured at amortised cost (Bischof, Bruggemann and Daske, 2012). Lastly is the available-for-sale (AFS) securities measured at fair value with fair value gains and losses recognised directly to shareholder's equity through other comprehensive incomes (FVTOCI). After initial recognition, five types of reclassifications measured at fair value are possible, but IAS 39 mandated only one reclassification of AFS securities into the HTM category (Bischof et al, 2012). And to instil discipline on institutions, reclassification of financial instruments into or out of the fair value through profit or loss (FVTPL) category was prohibited before the October 2008 amendment (IAS 39, para. BC73).

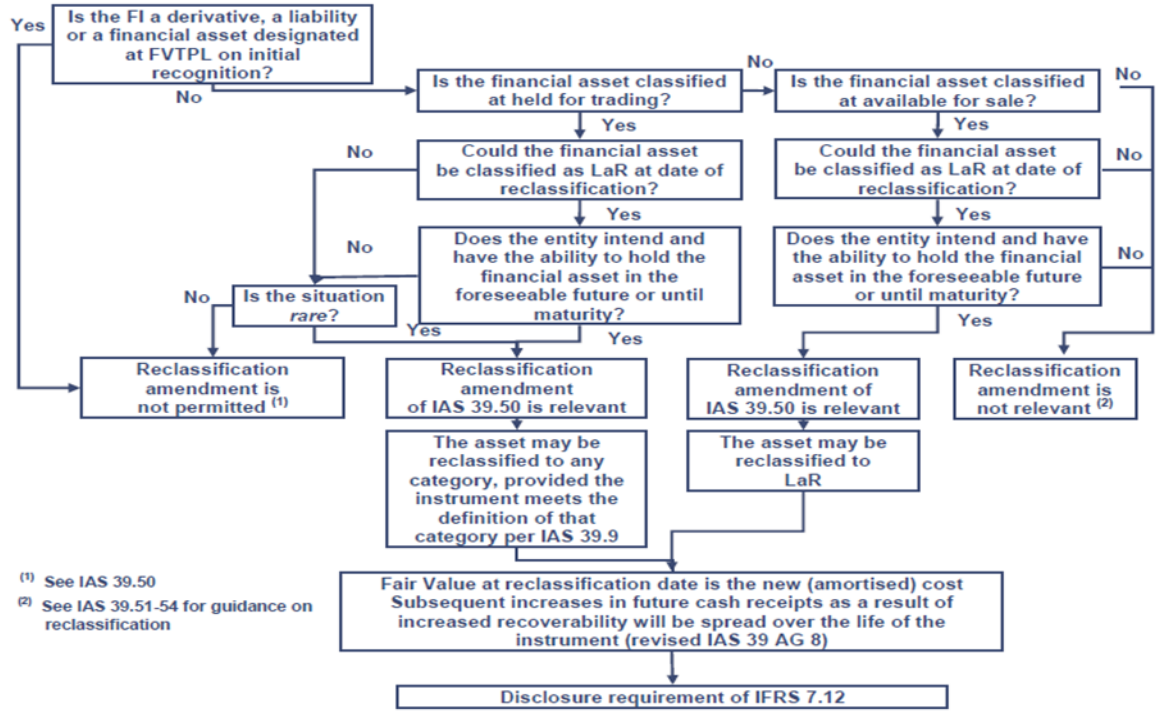
Figure 1: Classification of Financial Assets under IAS 39



Source: Feichter, 2011:51

The amended IAS 39 allowed entities to reclassify financial assets retrospectively to any date, for periods between 1 July and 31 October 2008 (IAS 39, para. 103H). However, for periods beginning on or after 1 November 2008, any reclassification of financial assets took effect only from the date when the reclassification was made. These amendments to IAS 39 were applicable only to non-derivative financial assets (IASB, para.50(a), 2008:2), not designated at fair value through profit or loss upon initial recognition (IASB, para.50(b), 2008:2), and only if certain criteria were met (IASB, para.50B, 50D and 50E, 2008:2) as illustrated in figure 2 below. The revised standard allows reclassification of financial holdings out of the HFT to LAR, HTM or AFS and out of AFS categories to LAR (IASB, para. 50(c), 2008:2). Assets for which the IAS 39 FVO is used are prohibited from reclassification (IASB, para. 50(b), 2008:2).

Figure 2: Amendment of IAS 39 for the Reclassification of Financial Instruments Published in October 2008



Source: Price Waterhouse Coopers.

This amendment attracted a lot of controversial and dissenting opinions regarding whether it was a well thought development or not. Critiques questioned the amendment's supposed effort of increasing international convergence of accounting standards to be rather decreasing it, because impairments rules for reclassified assets measured at amortised cost are less restrictive under IFRS than under the US-GAAP (Bischof et al, 2010). The amendment was therefore, not levelling the ground field as claimed by IASB. Analysts also criticised the amendment on the basis that it dented investor confidence. Quagli and Ricciardi (2010) stated that, even IASB itself had acknowledged that the new reclassification possibilities posed an inherent risk of being adopted by entities that wish to avoid reporting substantial fair value losses. Fiechter et al (2017) and Lim, Lim and Lobo (2013) concur that, by reclassifying financial assets, the revised standard has the potential to relieve banks from regulatory pressure during a market downturn and thereby insulating them from exposure to any future losses.

There seem to have been much controversy stirred by the IAS 39 amendment which propelled a great deal of accounting research. Extant research has investigated the underlying determinants of the individual banks' decisions to reclassify financial assets in accordance with the IAS 39 amendment. Using samples of European and worldwide banks applying IFRS, Fiechter (2011) and Bischof et al (2012), respectively, provide evidence that one third of banks in both samples took advantage of the reclassification opportunity offered by the IAS 39 amendment. Fiechter (2011)'s results indicate that, the reclassifications allowed banks to avoid extensive fair value losses, and thus, reported substantially higher levels of return on assets (ROA) and return on equity (ROE) while Bischof et al (2012) find that firm-specific profits increased by 44 percent on average. In a sample of 71 publicly traded banks in Europe, Quackly and Ricciardi (2010) find that more than 75 percent of reclassifying banks exhibited earnings management behaviour. Fiechter et al (2017), Kholmy and Ernstberger (2010), Paananen et al (2012) and Quackly and Ricciardi, (2010) also find that reclassifying banks avoided extensive fair value losses and hence, reported increased earnings, as well as higher regulatory capital after reclassification. Additionally, Paananen et al (2012) and Bischof et al (2012) document that banks that were more exposed to substantial fair value losses and also capital constrained were highly likely to reclassify their financial assets to avoid violating regulatory restrictions that would attract regulatory interventions.

Fiechter et al (2017) further argue that, most of the European banks that reclassified financial holdings were more probably capital constrained than those banks that did not, which corroborate Paananen et al (2012) and Bischof et al (2012)'s results. Consistent with the likelihood that poorly capitalised banks had the motive to adopt the reclassification opportunity presented by IAS 39 amendment, Kholmy and Ernstberger (2010) also demonstrate that, in a sample of 101 European banks, those that opted to reclassify were likely to be large banks that had recognised a decline in profitability. Generally, these studies suggest that commercial banks opportunistically adopted the amendment to IAS 39 as a tool for earnings and capital management than as a tool for achieving international accounting convergence.

Fair value accounting has been blamed for increasing the volatility of earnings and of other balance sheet variables like capital ratios and as such, this may affect how the market prices risk, which may consequently increase uncertainty of variables that rely on earnings such as capital ratios, as well as managers' compensations. Therefore, bank managers may be motivated to misrepresent earnings; to smooth earnings and reduce earnings volatility; and to manage regulatory capital, thereby signalling lower risk to the market and consequently being able to achieve stable managerial compensations.

The focus of the previous studies was to examine whether banks were motivated to adopt the amendment to reclassify financial assets to enhance their earnings or capital adequacy ratios which contributes to the realm of earnings and capital management literature. However, the existing literature is based on studies conducted on the entire population of banks without classifying banks into their systemic importance. The studies do not differentiate the behaviour of the systemically important banks from those of the non-systemically important banks with regards to the adoption of the reclassification amendment.

In so far as the reclassification literature is concerned, Fiechter et al (2017), is the only study that investigated if TITF banks adopted the reclassifications option and they present evidence that the banks did not take advantage of the reclassification opportunity because of the political protection that insulates them from regulatory pressure. However, within the same study, Fiechter et al (2017) examine the reclassifications that were made out of the trading category by a subsample of banks from non-prudential filter countries and find that TITF banks are likely to opt to reclassify out of HFT into AFS than non-TITF banks. Basically, Fiechter et al (2017)'s results do not suggest that there were completely no reclassifications among TITF banks, but they were however, not as significant as those of non-TITF banks. Their results suggest that the managers accounting choices are influenced by the significance of the entity to the economy in which they are located, as evidenced by non-TITF banks' accounting choices being mostly influenced by the need to adhere to the regulatory requirements, while on the other extreme, TITF banks' accounting decisions are relatively not influenced by regulatory concerns (Fiechter, 2017).

Despite the results by Fiechter (2017), this study argues that, because of the importance of G-SIBs to the entire global economic system and the threat that they pose should just one bank collapse, it forces bank supervisors to scrutinise and closely monitor G-SIBs' activities. And, since bank supervisors rely on reported income or earnings figures to judge the stability of banks, G-SIBs may be incentivised to manipulate their earnings figures to achieve the said financial stability. The study argues that the pressure to comply with regulatory requirements may force G-SIBs to behave in ways that enable them to achieve the goals of financial system stability enforced by bank supervisors. Therefore, G-SIBs are likely to enhance their financial reporting to depict a stable picture of earnings over time, which may alter regulators' opinion about their performance and stability. Based on this premises, the study predicts that G-SIBS are likely to adopt policy amendments that offer reclassification opportunities with potential to relieve them from recognising substantial fair value losses, as well as deteriorating capital adequacy ratios. This study is different from prior studies and it seeks to understand and explore how global systemically important banks reporting under the International Financial Reporting System (IFRS) applied the reclassifications since 2008/2009. Unlike Fiechter et al (2017)'s sample which is comprised of banks that are deemed too big to fail and those domiciled in 'no-fail' countries, this study focuses on a small sample of banks listed as global systemically important banks by the FSB in collaboration with BCBS.

The study intends to explore how G-SIBs applied the reclassification choices in terms of the reclassification categories adopted by the G-SIBs, the reasons for such reclassifications and how such reclassifications impacted the income and balance sheet figures. In exploring how the G-SIBs applied the reclassifications, the study makes reference to three main ways in which reclassifications can be applied which are: the reclassifications that applied to the allowed period between 2008 and 2009; the reclassifications that applied to the not allowed period, the period beyond 2010 (2010 to 2017); and the use of restatements to reclassify financial assets.

2.5 Reclassifications applicable to the allowed period between 2008/2009

In exploring how G-SIBs applied the reclassifications in 2008/2009, the study recognises that all previously conducted studies examined the implications of the amendment to IAS 39 reclassification decisions during 2008 and 2009, when the economic conditions were highly volatile. However, no study has extended its investigations further than 2009 to examine the effects of the reclassifications, if any, on the years beyond the financial crisis. Different from these studies, this study examines how the reclassifications were applied and extends the analysis to cover a protracted period of 10 years, specifically from 2008 to 2017. The study intends to examine whether the adoption of this amendment has an advantage in the long term and if the banks reaped any long-term advantages from the reclassifications made during 2008/2009. This includes examining the types of reclassification choices adopted by the G-SIBS and examining whether the most commonly applied reclassification choices indicate any preference by banks to improve the net income or the banks equity/regulatory capital. Existing literature indicates that banks that reclassified in accordance with the amended IAS 39 reaped benefits in terms of improved reported earnings and capital adequacy ratios.

Reclassifications from HFT category to AFS and LAR categories have the potential to increase earnings. A reclassification from HFT to AFS affects the net income only and not the equity, since fair value gains or losses continue being recognised in the revaluation reserves as part of shareholders' equity but are nevertheless, recognised in other comprehensive income rather than the income statement. The reclassification from HFT to LAR will, however, affect both the net income and the equity since the fair value gains or losses cease being recognised in the income statement, and hence in equity. These two forms of reclassifications, therefore, can assist banks to avoid substantial fair value losses from being recognised in the net income and hence equity during the financial crisis when financial assets values have plunged.

The reclassification option that increases equity would be the reclassification from HFT and AFS categories to LAR category. Such movements affect both the net income and equity with

fair value losses previously recognised in the net income and other comprehensive income, respectively, cease being recognised there. Therefore, due to the difficult economic conditions with assets realising fair value losses, such a reclassification that avoids fair value losses from being recognised in both the net income and equity may assist banks that are capital constrained to avoid reporting deteriorating capital ratios or alternatively assist banks to increase their reported equity.

Given these alluded reclassifications, it can be predicted that banks may have adopted a lot of reclassifications from the HFT and AFS categories to LAR since such reclassifications increases both the net income and equity, unlike the reclassifications from HFT category to AFS category. The benefits of the latter reclassification may be stronger on the net income and would not affect shareholders equity because fair value gains and losses are still considered in the revaluation reserves as part of shareholders equity but are now reported in OCI rather than profit or loss account.

The discretion accorded by the amendment to IAS 39 to reclassify non-derivative financial assets retrospectively causes an interest to understand if the decisions to reclassify were driven by unbiased intentions and ability to hold the financial assets for a foreseeable future or the impossibility to estimate fair values, or perhaps managerial decisions were merely stirred by the incentives to meet specific earnings thresholds. The allegations that FVA amplified the impact of the financial crisis make it reasonable to assume that banks on the verge of failing to achieve their earnings benchmarks because of massive asset write-downs at distorted prices, may have found an opportunity to look-back into their figures and apply the amendment to attain their earnings targets. Perhaps, banks used the opportunity to window-dress their books to appear healthy to bank regulators, potential investors and depositors in order to be able to source capital at a lower cost and to also prevent depositors from panicking and withdrawing their deposits or demanding higher interest rates on their deposits. Dechow, Sloan and Sweeney (1996) assert that one of the important motivations for earnings manipulation is the banks managers' wish to attract external financing at low cost. They might have been under pressure to maintain past profitability, since poor earnings

ratios signal to investors that the banks would perform worse in future. Therefore, since investors, creditors, depositors and other external stakeholders use accounting information to measure the financial health of entities before making their investment decisions, banks managers may have been under pressure to make their books look appealing, and hence, the amendment to IAS 39 may have presented a perfect opportunity for banks to align their earnings objectives by reclassifying their financial assets.

2.6 Reclassifications applicable to the not allowed period - 2010 to 2017

In an attempt to examine how G-SIBs applied the reclassifications during the 2008/2009, it is crucial to remember that the amendment was exclusively for a limited period of time, to alleviate the impact of the financial crisis. The amendment was intended to be short-lived, hence why its introduction did not even follow the regular standard-setting procedure. Therefore, the expectation is that, banks should have ceased applying the dispensation after the crisis and adopted the gradually introduced IFRS 9 since the revision of IAS 39 was not intended to be an expansion of fair value measurement. Seeing that during the crisis the amendment tend to have yielded positive effects in terms of increasing earnings and regulatory capital of commercial banks that adopted the amendment as alluded by the existing literature, it is interesting to find out if the positive results have not created a habit among the G-SIBs to continue using the allowance even after the window period. This makes it interesting to determine whether any G-SIBs applied the amendment beyond the allowed period and the reasons advanced by banks on such reclassifications. No studies have so far attempted to find out if any banks extended the use of the IAS 39 reclassifications beyond its timeframe and thus no literature exists on this.

2.7 The use of restatements to reclassify financial assets

When exploring how the reclassification choices were applied, an important aspect of compliance with the amended standard comes into the picture, to determine if all the

requirements stipulated by the amended standard were applied correctly. According to the amended IAS 39, financial liabilities, derivatives and financial assets that are designated as at fair value through profit and loss on initial recognition cannot be reclassified (Deloitte, 2008:1). The amendment to IAS 39 does not permit reclassifications into and out of the designated as at fair value category. Despite the amendment to IAS 39 reiterating that such reclassifications into and out of the designated as at fair value category are prohibited, some banks seem to have found a way of circumventing this prohibition. De Jager (2014) finds that Standard Bank of South Africa (SBoSA) restated comparative figures to avoid the prohibition on reclassifications of assets into and out of the 'designated as at fair value' category. He finds that, "significant accounting restatements, where comparative figures were different from those in the annual report for the financial year to which they refer, were evident in 2011 (2010 figures were adjusted), 2008 (2007 figures were adjusted) and 2007 (2006 figures were adjusted)" (De Jager, 2010:144). Upon probing SBoSA about the kind of reclassifications made, the bank explained that the reclassifications were initially errors which in terms of IAS 8, can be corrected when spotted. Therefore, according to the bank's response, the reclassifications were not reclassifications as contemplated by the amendment to IAS 39, however, it was rectification of errors that were never supposed to have initially occurred.

This presents an interesting link between restatements and reclassifications that requires to be explored because banks could have basically adopted this as a tool to get around the prohibited reclassification rule, that is, restating previously reclassified financial assets into and out of the designated as at fair value category. Therefore, this presents a possible type of a financial restatement, where previously reclassified assets are restated to circumvent the requirements of IAS 39. By nature of restatements, they provide managers with what is known as a "look-back option" which enables managers to look into historic numbers and determine whether a particular restatement can enhance previously reported figures in order to make them look and tell the story they wish to portray to the users of financial statements. This behaviour was also spotted on Nedbank Group 2009 Annual Report where some investment securities were reclassified from available-for-sale (AFS) category to designated as at FVTPL (Nedbank Group, 2010:294). This could have been an available tool for banks to

apply the restatement option to reclassify financial assets, thus, resulting in another sub-research objective to determine whether any G-SIBs restated previously reclassified assets.

Currently, there is no literature on this possible type of restatements. However, a large body of literature exists explaining the underlying motives for financial restatements in general (Plumlee and Yohn, 2010; Ciesielski and Weirich 2006). Some studies attempted to find the impact of restatements on restating firms and have documented increases in the cost of capital after restatements, owing to reliance on private debt financing which comes at a higher cost and more stringent contract terms after restatements (Chen, Cheng and Lo, 2013; Graham, Li and Qiu, 2008; Hribar and Jenkins, 2004; Shi and Zhang, 2008). Other studies revealed that equity values tend to drop following announcement of restatements due to dented investor confidence (e.g., Anderson and Yohn 2002; Palmrose, Richardson and Scholz, 2004; Wilson, 2008). Gleason, Jenkins and Johnson (2008), Kravet and Shevlin (2010), Wilson (2008) and Xu, Najand and Ziegenfuss (2006) attributed the confidence crisis to the decrease in accounting credibility and quality of information than previously perceived.

According to Plumlee and Yohn (2010:42), 57 percent of restatements filed in the United States from 2003 to 2006 are associated with internal company errors while 37 percent is found to be "some characteristic of the accounting standards." Of the 37 percent associated with some characteristic of the accounting standards, 58 percent are related the accounting standards ambiguity, while 37 percent are related to the use of management discretion in applying the standards. However, most authors argue that restatements are mostly driven by the complexity of accounting standards (Ciesielski and Weirich, 2006; Securities and Exchange Commission (SEC), 2008). Other authors contend that the rise in financial restatements can be attributable to the increase in earnings manipulation and firms' focus on meeting or exceeding earnings benchmarks which have resulted in deliberate misapplication of accounting principles in order to meet earnings thresholds that will ultimately require to be restated when the earnings management is uncovered (Desai, Hogan and Wilkins, 2006; Desai, Krishnamurthy and Venkataraman, 2006; Efendi, Lee, Li and Yu, 2006; Plumlee and

Yohn, 2010; Srivastava and Swanson, 2007). According to GAO report (2002), almost half of the SEC's enforcement cases since the late 1990's involved revenue recognition violations.

These previous studies assist in understanding what causes firms to restate their financial statements and the kind of restatements firms are engaged on. In addition to this literature, this study attempts to find out if this new type of restatement which has brought up a link between restatements to correct errors in accordance with IAS 8 and reclassification of financial assets in accordance with IAS 39 amendment exists among G-SIBs and the impact of such restatements on the balance sheet and income statement figures of the G-SIBs.

The prohibited reclassification of assets into and out of the designated as at fair value (FVO) category can occur in eight different ways, and the effects of such reclassifcations on the net income and equity are summarised in Table 1 below.

Table 1: List of Possible Reclassifications into and out of the Designated as at Fair Value Category

Out of		*Into*	*Effects*
FVO	→	HFT	No effect since fair value gains are still being recognised in the income statement (P&L).
HFT	→	FVO	No effect since fair value gains are still being recognised in the income statement (P&L).
FVO	→	LAR	Affects both net income and equity since FV gains and losses cease to be recognised in profit or loss and, thus, in equity.
LAR	→	FVO	Affects both net income and equity since FV gains and losses start to be recognised in the income statement (P&L) and, thus, in equity.
FVO	→	HTM	Affects both net income and equity since FV gains and losses cease to be recognised in profit or loss and, thus, in equity.
HTM	→	FVO	Affects both net income and equity since FV gains and losses start to be recognised in the income statement (P&L) and, thus, in equity.
FVO	→	AFS	Affects net income but not equity because FV gains and losses are still considered in the revaluation reserves as part of shareholders equity, but are now reported in OCI rather than income statement (P&L).
AFS	→	FVO	Affects net income but not equity because FV gains and losses are still considered in the revaluation reserves as part of shareholders equity, but are now reported in the income statement (P&L) rather than OCI.

Reclassifications out of FVO into HFT and vis-a-vis have no effect in the net income and equity because fair value gains and losses continue to be reported in profit or loss, and hence, equity.

Reclassifying out of FVO into LAR or HTM affects both the net income and equity because fair value gains and losses cease being recognised in the profit or loss and, therefore, in equity. A reverse reclassification out of LAR or HTM into FVO affects both the net income and equity since fair value changes start to be recognised in profit or loss and, hence, in equity. The movement out of the FVO into AFS affects net income but not equity because fair value gains and losses are still considered in the revaluation reserves as part of shareholders equity but are now reported in other comprehensive income (OCI) rather than profit or loss. The reclassification out of AFS into FVO, the FV changes are also still considered as part of shareholders equity but are now accounted for in the profit or loss account rather than OCI.

In summary, these studies taken together indicate a lack of research on the adoption of the IAS 39 by the global systemically important banks and hence, this study attempts to fill the gap by exploring the 3 ways in which reclassification choices can be applied by focusing on only the G-SBIs.

3. Research Approach

3.1 Research Design

This study intends to explore how G-SIBs applied the IAS 39 reclassifications since the 2008/2009 financial crisis and the impact/implications of the adoption of this revised standard on financial statements. The study is by necessity and design a qualitative research. The purpose of a qualitative research is to provide answers to the 'what', 'how' or 'why' of a phenomenon and not the 'how many' or 'how much', which are answered by quantitative research. This type of research question aims at uncovering how a phenomenon, in this case, the IAS 39 reclassifications were applied since the 2008/2009 financial crisis which is a phenomenon that cannot be predicted in advance, thus, requiring an in-depth understanding of the motivations behind the application of IAS 39 reclassifications. As such, the type of research question calls for a research methodology that can provide an in-depth insight into

the problem. Despite choosing a qualitative approach, the study does not completely exclude the use of quantitative data.

Arguments about the appropriateness of qualitative or quantitative research approaches have been debatable. However, each of the two approaches has its own inimitable ways of gathering and analysing data. The end objective of both approaches is the same even though they have unique strengths and logic from applying various techniques and procedures (Maxwell, 2004; Maxwell and Loomis, 2002).

A qualitative research is exploratory in nature. It is used when the emphasis is to uncover an understanding of the underlying reasons, motivations and factors that influence decision making and opinions (Zikmund, Babin, Carr and Griffin, 2013; Schindler, 2019). It does so by allowing for deeper probing into the problem which can assist with ideas or hypothesis development that can lead to possible quantitative research (Zikmund et al, 2013). Qualitative research can also be applied to reveal trends in thought and opinions and provides an in-depth exploration of the problem. On the other extreme is the quantitative research which quantifies the problem through the use of numerical data or data that can be transformed into useful and meaningful statistics (Zikmund et al, 2013). Quantitative research takes behaviours, attitudes, opinions and other variables and transform them into a quantifiable measure that can be generalised from a greater sample population (Schindler, 2019).

Qualitative research can be conducted in many ways using various techniques. This study uses a comparative or multiple case study design or technique, specifically consisting of 10 G-SIBs. Yin (2009:18) defines a case study as, “an empirical inquiry about a contemporary phenomenon (e.g., a “case”), set within its real-world context especially when the boundaries between phenomenon and context are not clearly evident.” This definition of a case study suggests that there are at least three aspects that make it relevant to use the case study method as a research method. The most important aspect is the type of research question that the study is attempting to address (Shavelson and Towne, 2002). It is appropriate to use a case study when the research question poses; a *descriptive question* - the “what” type of

question; an *exploratory question* – the "how" type of question; or an *explanatory question*, that is the "why" type of research question. The other important aspect is when investigating a real-world phenomenon that allows for collection of data in natural settings, rather than depending on "derived" data (Bromley, 1986; Yin, 2009). The last important aspect that makes a case study an appropriate research approach is when the researcher has little or no control over the events (De Jager, 2010). Therefore, in this case the study poses an exploratory type of a research question.

The problem associated with single case studies is the lack of generalisability of the results of the cases studied, as well as numerous information-processing biases (Eisenhardt 1989:538). Therefore, to respond to these biases, this study applies a multiple-case approach which comprises of 10 G-SIBs. The motive for a multi-case study approach is to "augment external validity and help guard against observer biases" (Leonard-Barton 1990:258-259). Moreover, multi-case sampling assist with increasing the confidence of the results and enabling the researcher to point out some common and unique traits across the cases studied (De Jager, 2010), as well as allowing for a deeper and richer look at each case (Meyer,2001:333).

3.2 Selection of Units of Analysis

The units of analysis of this study consist of 10 global systemically important banks reporting under IFRS because the study focuses on the accounting choice in IAS 39. The study uses the 2018 list of G-SIBs published in November 16, 2018 by the FSB in collaboration with BCBS. This list assists in identifying banks that are considered to be systemic. The published list consists of 29 banks considered to be global systemically important. Of the 29 G-SIBs, 16 banks apply IFRS, 9 report under the United States GAAP, 2 under the Japanese GAAP while 1 each under the Canadian GAAP and the People Republic of China (PRC) GAAP, respectively. G-SIBs reporting under the US and Japanese are excluded from the group of banks analysed by the study because the amendment to IAS 39 did not apply to them since the reclassification options were already allowed under the US GAAP. The IAS 39 amendment was aimed at levelling the playing field for banks reporting under IFRS and US GAAP. The case study group,

however, includes banks reporting under the PRC and Canadian GAAP, because, similar to the IFRS reporting banks, certain reclassification options were previously prohibited. However, the amendments were passed on in October 2008 with the effective date being August 1, 2008 for the Canadian GAAP.

After including the banks reporting under the Canadian and PRC GAAP to the 16 IFRS reporting banks, the total group of banks illegible to use the IAS 39 reclassification amendment becomes 18. However, 3 G-SIBs are excluded due to lack of sufficient data while 5 are excluded because they did not apply the dispensation and have explicitly stated so in their annual reports. This results in the final case study group consisting of 10 G-SIBs as illustrated in Table 2 below.

Table 2: Case Study Group Selection Process

Units of Analysis	
Total G-SIBs	29
Exclude US-GAAP reporting banks	-9
Exclude Japanese GAAP reporting banks	-2
Total Banks Eligible to use IAS 39 amendment	**18**
Exclude banks with insufficient data	-3
Sub - Case Study Group	15
Exclude non-reclassifying banks	-5
FINAL CASE STUDY GROUP	**10**

Table 3 below provides a breakdown by country of the group of banks with available data that were illegible to reclassify under the IAS 39 amendment;

Table 3: Sub-Case Study Group Analysis

			Reclassifiers		Non-Reclassifiers	
Country	No.	In % of Sub-Case Study Group	No.	In %	No.	In %
Canada	1	6,7%	1	100%	0	0%
China	4	26,7%	0	0%	4	100%
France	3	20,0%	3	100%	0	0%
Germany	1	6,7%	1	100%	0	0%
Italy	1	6,7%	1	100%	0	0%
Netherlands	1	6,7%	1	100%	0	0%
Switzerland	2	13,3%	1	50%	1	50%
United Kingdom	2	13,3%	2	100%	0	0%
Total	**15**	**100,0%**	**10**	**66,7%**	**5**	**33,3%**

Table 3 above illustrates a breakdown of the sub-case study group by country. These are a group of G-SIBS that are eligible to reclassify financial assets under IAS 39 and have available information. With a total of 15 G-SIBs, China exhibits the largest number of the sub-case study group (26.7%). The table further documents an interesting observation that all banks in China did not reclassify financial assets in accordance with IAS 39 amendment. All other banks in other countries adopted and used the reclassification amendment, save for Swiss banks wherein one (1) bank used the reclassification dispensation while the other bank did not reclassify financial assets. This brings the total number of G-SIBs that did not reclassify financial assets pursuant to the amendment to 5. These G-SIBs stated in their annual reports that they have adopted the amendments to IAS 39, but there were no reclassifications of financial assets done during the period under review, save for Bank of China and China Construction Bank, which reclassified assets within the previously permitted categories (from AFS into HTM). The study speculate that the G-SIBs that did not reclassify in accordance with the revised IAS 39 had less trading assets (which were the most affected type of assets) in their balance sheets and hence, the effects of the financial crisis were not as strong on them as on other G-SIBs that had substantial amounts of trading assets. The other reason could be that the adoption of the reclassification options would have not made any significant improvements to their reported earnings. In summary, 66.7% of G-SIBs made use of the

amendment to IAS 39 which forms the focus of this study, while 33.3% of the G-SIBs did not apply the amendment.

Table 4 below illustrates the group of G-SIBs that comprises the final case study units of analysis by country;

Table 4: Case Study Units of Analysis

BANK	REPORTING BASIS	HEADQUARTERS	Continent
Barclays PLC	IFRS	London, United Kingdom	Europe
BNP Paribas	IFRS	Paris, France	Europe
Deutsche Bank	IFRS	Frankfurt, Germany	Europe
Groupe BPCE	IFRS	Paris, France	Europe
Groupe Credit Agricole	IFRS	Montrouge, France	Europe
ING Bank	IFRS	Amsterdam, Netherlands	Europe
Stanchart	IFRS	London, United Kingdom	Europe
UBS	IFRS	Zurish, Switzerland	Europe
Unicredit Group	IFRS	Milan, Italy	Europe
Royal Bank of Canada	CANADIAN-GAAP	Toronto, Canada	North America

3.3 Data Collection

The study utilises secondary data sourced from annual reports and financial statements of the G-SIBs. The annual reports were sourced from the banks' official websites. For those years that the annual reports were not available on the websites, the annual reports were downloaded from Bloomberg.

Data about reclassifications choices and relevant disclosures was manually obtained from the annual reports and notes to the banks' annual financial statements to establish if a bank reclassified its financial assets under the October 13, 2008 IAS 39 amendment. The keyword "*RECLASS*" was used to search for data related to reclassifications under IAS 39 while "*RESTATE*" was used to search for data associated with restatements in the banks' annual reports. Additional data about the G-SIBs was sourced from Bloomberg and verified against

the respective banks' annual reports. It was discovered that Bloomberg data does not update banks restated figures.

3.4 Data Analysis

To achieve the first two objectives of the study, the reclassifications are categorised into three main groups. The first group is the reclassifications from HFT to LAR/HTM category which affects both the net income and equity since fair value gains and losses stop being recognised in profit or loss and hence in equity. The other category is the reclassifications from HFT to AFS category which affects the net income only, but not equity because fair value gains and losses are still considered in the revaluation reserves as part of shareholders equity but are now reported in other comprehensive income (OCI) and not the income statement. The last group comprises of reclassifications from AFS to LAR category which affects other comprehensive income because assets cease being measured at fair value through other comprehensive income but at amortised cost. Once the categorisation is completed, it allows for grouping the reclassifications into those that happened during the allowed period and those outside the allowed period.

The third objective which is finding out if the G-SIBs applied the restatement option to reclassify into and out of the prohibited category (the designated as at fair value category), will be achieved by categorising the different types of restatements that occurred from 2008 to 2017 into groups. Once these are classified into respective categories, the study only deals with restatements that circumvent the prohibition to reclassify into and out the designated as at fair value category.

To analyse the impact of the reclassifications, which is the fourth and last research objective, the study focuses on the impact on two main ratios in the banking industry, the return on equity (ROE) and total capital. The bank business model following risk management and regulatory approaches to bank capital, crystallised ROE as the main performance metric in the banking sector. Moussu and Petit-Romec (2014) posit that ROE is not only the main

measure of bank performance but it also drives the allocation of resources across and within bank divisions. In addition, ROE is an important profitability ratio that indicates how successfully banks maintain their profitability (Erina and Lace, 2013) as it demonstrates the bank's efficiency at generating earnings using the available shareholders equity, making it an important ratio for potential investors.

The banks' capital ratio is also another important ratio in commercial banks, even though higher capital is believed to be costly for banks because it reduces profitability (Berger, 1995; Goddard, Molyneux and Wilson, 2004). The "trade-off" theory, however, suggests that higher capital may also reduce a bank's risk and therefore, the premium required to compensate investors for the bankruptcy costs (Demsetz, Saidenberg and Strahan, 1996; Hellmann, Murdoch and Stiglitz, 2000). Traditional corporate finance theories suggest that a bank in equilibrium desires to hold what it internally deems optimal level of capital, that is, the level of capital that trades off costs and benefits. However, Buser, Andrew and Edward, (1981) and Miller (1995) posit that banks may be forced to hold capital in excess of their internal optimal due to some capital requirements imposed by regulators. The banks optimal capital ratios, however, vary over the financial cycle, they rise during periods of higher expected costs of distress (Berger, 1995). In his study, Berger (1995) concludes that during times of distress the relationship between capital and profitability is likely to be cyclical, becoming positive because adequately capitalised banks tend to have lower bankruptcy costs, which lowers the cost of capital and hence, increasing the profitability. As a result, good capital ratios and improved profitability reassures investors about the future existence of the bank.

Different from Fiechter (2011) who pursued return on assets (ROA) in his analysis, this study does not pursue ROA. While ROA is another good measure of performance and profitability, it does not reflect the impact of capital structure decisions or financial leverage on the entity's earnings. Another major shortcoming of ROA ratio is that it makes it difficult to compare entities with different asset structures. Therefore, the study prefers using the ROE over ROA because of the asset independency of ROE, which enables a comparison of banks with differing asset structures, as well as comparative profitability of internal lines of business,

something that is impossible with ROA. It is for these reasons that the study focuses on ROE and total capital to assess how the reclassifications impacted the performance of G-SIBs that applied the amendment to IAS 39, more so that the amendment was introduced to alleviate the impacts of FVA during a distressed period.

To analyse the effects of the reclassification options on the financial statements, the reported figures are compared against calculated pre-reclassification figures. To determine performance-related pre-reclassification figures, the change in net profit due to reclassifications from HFT into LAR and HFT into AFS is deducted from the reported net profit. In order to calculate the pre-reclassification net profit, the following steps are followed;

(a) Fair value is subtracted from the carrying value of the reclassified assets to see how much loss or gain would have been recognised had the bank continued using the fair value method to value the assets. The carrying value is the reported value of the assets as stated in the annual financial statements. The difference between the two values provides an indication of how much loss was avoided by adopting the IAS 39 reclassification amendment or how much gain the bank had forgone by reclassifying financial assets. A positive value indicates that a profit has actually been realised from reclassifying financial assets. Said differently, it indicates the amount of loss avoided by adopting the reclassification amendment.

(b) The difference in these two values is then reduced by the effective tax rate to get the after-tax total change in net profit due to reclassifications. The after-tax total change in net profit due to reclassifications is basically the true net profit (loss) forgone (avoided) when assets were reclassified in accordance with the amended IAS 39.

(c) The after-tax total change in net profit due to reclassifications is then deducted from the reported net profit to restate the reported net profit to what it could have been had there been no reclassifications. The calculation of the pre-reclassification net profit allows for the computation of pre-reclassification ROE which enables a

comparison with the reported ROE to analyse the performance of banks before and after reclassifications of financial assets.

To calculate capital-related pre-reclassification figures, the change in net income due to reclassifications from HFT to LAR are deducted from the reported total regulatory capital as well as changes in other comprehensive income (OCI) due to reclassifications from AFS to LAR, because both these reclassifications affect the value of equity. However, change in net income due to reclassifications from HFT to AFS are not deducted from total regulatory capital since the kind of reclassification does not affect the equity because any fair value gains and losses from AFS revaluation reserves do not count as part of regulatory capital in terms of Basel 2 Accord.

Since majority of the G-SIBs under the scope of this study report in Euros, the monetary values of the four G-SIBs (Barclays, Stanchart, Royal Bank of Canada and UBS) that report in other currencies are converted to Euros for uniformity and comparability purposes using the exchange rates obtained from Bloomberg. Exchange rates on the date of reclassification are used to calculate amount of assets reclassified. For those banks where the reclassification date is not specifically stated but alluded to have occurred during a certain quarter, the exchange rate of the last day of the quarter is used. The reported net income is converted using the average exchange rate of the year while the change in net income and other comprehensive income due to reclassification are converted to Euros using the average exchange rate of the period from the reclassification date to December 31st of the year of reclassification or the financial year-end of the respective G-SIB (e.g., RBC whose financial year-end is October 31st). However, for the years where there is no reclassification the average exchange rate for the year is used. Balance sheet figures such as the book value of equity are converted using the exchange rate as at December 31st of each year or as at the financial year end of the respective banks.

4. Results of the Study

This section presents the results of the study. The purpose is to explore the three possible ways in which G-SIBs can apply the reclassification choices, being the application of IAS 39 amendment during the allowed period, beyond the allowed period and the application of restatements to the previously reclassified financial assets. In addition, the study also intends to find out the long-term effects of the reclassifications, particularly on the net income, ROE and total regulatory capital. The outcome will assist in determining if G-SIBs adopted the IAS 39 as an opportunistic tool for managing earnings and regulatory capital.

4.1 Analysis of the Reclassification Time

For periods between July 1 and October 31, 2008, entities were allowed to reclassify financial assets retrospectively to any date during the period. Banks that reclassified assets prior to November 1, 2008 could backdate to any date between July 1 and October 31, 2008. However, after November 1, 2008, any reclassification took place from the date on which they occurred, implying that after this period reclassifications can only be done prospectively.

The data indicates that out of 10 G-SIBS that form the group of analysis of this study, majority (80 percent) of G-SIBS used both options of reclassifications, the retrospective and prospective, except the 10 percent of the banks that decided to reclassify retrospectively while the other 10 percent applied the prospective reclassifications. One G-SIB retrospectively reclassified financial assets on July 1, 2008, while another one prospectively reclassified financial assets in December and first quarter of 2009. Table 5 and 6 below illustrate the G-SIBs by name and their retrospective and prospective dates of reclassifications;

Table 5: Retrospective Reclassifications by the G-SIBs

RETROSPECTIVE RECLASSIFICATIONS	
Bank	**Reclassification Date**
BNP	01-Oct-08
Deutche	01-Oct-08
Groupe Credit Agricole	01-Oct-08
Groupe BPCE	01-Oct-08
ING	01-Oct-08
Stanchart	01-Jul-08
UBS	01-Oct-08
Unicredit	01-Oct-08
Royal Bank of Canada	01-Aug-08 and 01-Oct-08

Table 6: Prospective Reclassifications by the G-SIBs

PROSPECTIVE RECLASSIFICATIONS	
Bank	**Reclassification Date**
Barclays	16-Dec-09 and 25-Nov-09
BNP	30-Jun-09 and 30-Jun-11
Deutche	31-Mar-09
Groupe Credit Agricole*	2010, 2011, 30-Jun-14, 16-Dec-14 and Dec 15
Groupe BPCE	31-Dec-08
ING	12-Jan-09 and Q2, 2009
UBS	31-Dec-08 and Q1, 2009
Unicredit	31-Mar-09
RBC	01-Oct-11 and 01-Oct-15

**Specific dates not disclosed*

The tables indicate the dates of reclassifications with the exception of Groupe Credit Agricole which had not explicitly stated some dates on which it reclassified the assets in the financial statements. 15 retrospective and 20 prospective reclassifications occurred during the period under review.

4.2 Analysis of Reclassifications

The study examined in detail the reclassifications made by the G-SIBs. Basically, there are 4 types of reclassifications that can be applied by banks under the IAS 39, which are, HFT into LAR/HTM; HFT into AFS, AFS into LAR; and AFS into HTM. However, prior to the revision of IAS 39, only one reclassification, particularly the reclassification from the AFS securities into HTM was permitted. Therefore, for the purpose of this study only three reclassifications which were not previously allowed are examined.

Table 7: Types of Reclassifications Adopted by the G-SIBs

Type of Reclassification	G-SIBs	Number of Banks
HFT into LAR/HTM only	Barclays, Deutche and UBS	3
HFT into AFS only	-	-
AFS into LAR only	ING	1
HFT into LAR and HFT into AFS AFS	-	-
HFT into LAR and AFS into LAR	Groupe Credit Agricole and Groupe BPCE	2
HFT into AFS and AFS into LAR	Royal Bank of Canada	1
All three categories	BNP Paribus, Stanchart and Unicredit	3

Table 7 above provides the type of reclassifications adopted by the different G-SIBs over the period under review. It demonstrates that, the G-SIBs utilised all the three types of reclassifications. However, some banks adopted only one type of the reclassification while others adopted more than one or all the three types. An exploration of the reclassifications reveals that majority of G-SIBs, 40 percent made only one type of reclassification. Of this 40 percent, 30 percent comprises banks that reclassified from HFT into LAR/HTM while 10 percent reclassified from AFS securities into LAR. 30 percent of G-SIBs used all the three types of reclassifications. The remaining 30 percent used two types of reclassifications, where 20 percent used the option to reclassify from HFT into LAR and AFS into LAR whereas 10 percent reclassified from HFT into AFS and AFS into LAR. None of the banks adopted reclassifications from HFT into AFS only nor a combination of reclassifications from HFT into LAR and HFT into AFS.

Table 8: Summary of the Types of Reclassifications that Occurred from 2008 to 2017

Type of Reclassification	Total Carrying Value (in Million of Euros)	Number of Transactions	Percent
HFT to LAR/HTM	140 795	20	57,14%
HFT to AFS	18 037	5	14,29%
AFS to LAR	49 555	10	28,57%
TOTAL	**208 387**	**35**	**100,00%**

Exploring the total number of reclassifications that occurred during the period under review illustrates that a total of 35 reclassifications with a total carrying value of € 208 387 million took place between 2008 and 2017 as illustrated in Table 8 above. The most common type was the reclassification of trading securities into loan and receivables which registered 20 reclassifications (57.14 percent) with a carrying value of € 140 795 million, followed by reclassifications from AFS into LAR at 28.57 percent and carrying value of € 49 555 million while the remaining 14.29 percent were the reclassifications from HFT into AFS securities with carrying value of € 18 037 million. It should be noted that some G-SIBs may have the same type of reclassification occurring more than once in the same year or in different years. An interesting observation was with Groupe Credit Agricole which had a total of eight reclassifications over the 10-year period, seven of which were reclassifications of trading securities into loans and receivables while one was from available for sale securities into loans and receivables.

The average carrying value of financial assets reclassified year-on-year is provided on Table 9 below. An average of € 20 839 million financial assets was reclassified during the period under review. The table illustrates that reclassifications were prominent during the financial crisis, that is in 2008 and 2009 as the table illustrates that an average of € 13 058 million and € 6 203 million were reclassified in these two years, respectively. The two years accounted for an average of 92.43 percent of the average assets reclassified during the 10-year period. A massive decline of assets reclassified was observed in 2010 were an average of € 8 million financial assets were reclassified. The reclassifications after 2009 are regarded as those conducted outside the allowed period because the amendment to IAS 39 was meant to be

used for a short period following which the IASB progressively introduced IFRS 9 as a replacement standard. Despite this, the table reveals that some G-SIBs continued to reclassify assets beyond 2009, more of which were reclassified in 2011 (€ 911 million) and 2015 (€ 616 million).

Table 9: Average Assets Reclassified from 2008 to 2017

AVERAGE ASSETS RECLASSIFIED											
Type of Reclassification	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**TOTAL**
HFT into LAR/HTM	10 870	3 179	8	17	-	-	2	2	1	-	14 079
HFT into AFS	1 529	12	-	263	-	-	-	-	-	-	1 804
AFS into LAR	659	3 012	-	631	-	-	40	614	-	-	4 956
TOTAL	**13 058**	**6 203**	**8**	**911**	**-**	**-**	**42**	**616**	**1**	**-**	**20 839**

4.3 Reclassifications within the Allowed Period

Table 10: Classification of Reclassifications into the allowed and Unallowed Period

	NUMBER OF RECLASSIFICATIONS	
G-SIBs	**Allowed Period**	**Not Allowed Period**
Barclays	2	0
BNP	4	1
Deutche	3	0
Groupe Agricole	2	6
Groupe BPCE	3	0
ING	3	0
RBC	1	2
Stanchart	3	0
UBS	3	0
Unicredit	2	0
Total	**26**	**9**

Seven out of ten G-SIBs reclassified financial assets within the allowed period only, between 2008 (between 1 July and December 31) and 2009 as illustrated by Table 10 above. This forms the majority of the sample, i.e., 70 percent of the G-SIBs. Five G-SIBs out of the seven that reclassified within the allowed period reclassified both in 2008 and 2009 while two reclassified assets during the first year of the amendment of IAS 39 only, that is, between 1 July and 31 December 2008. Of the 35 reclassifications (reported in Table 8) that occurred

over the 10-year period, 26 reclassifications were within the allowed period while 9 where outside the allowed period as illustrated in Table 10. Within the allowed period, 15 reclassifications were from the HFT into LAR (57.69 percent), 8 from the AFS into the LAR (30.77 percent) and 4 were from HFT into AFS (15.38 percent).

4.4 Reclassifications beyond the Allowed Period

Table 11 below illustrates the three G-SIBs that extended the use of the IAS 39 to a period beyond 2009 despite the continuous introduction of the IFRS 9 which was meant to replace IAS 39. These three banks are, BNP Paribus which reclassified financial assets in 2008, 2009 and 2011, Groupe Credit Agricole which reclassified assets in 2008, 2009, 2010, 2011, 2014, 2015 and 2016, while the Royal Bank of Canada reclassified assets in 2008, 2011 and 2015.

The total carrying value of the financial assets reclassified outside the allowed period is € 15 778 million, accounting for 7.57 percent of total reclassified assets. It consists of € 300 million reclassifications from HFT into LAR, € 2 632 million reclassified from HFT into AFS and € 12 846 million reclassified from AFS into LAR. A bulk of assets reclassified outside the allowed period were in respect of AFS securities reclassified into LAR as highlighted by the figure enclosed in the blue oval in Table 11 below, comprising 81.42 percent of all assets reclassified beyond the allowed period. Interestingly, a large amount of the assets reclassified in this category were reclassified by BNP Paribus (49.14 percent) and Royal Bank of Canada (47.77 percent) as highlighted by the figures inserted in red ovals in the Table 11 below.

Table 11: The Carrying Values of Financial Instruments Reclassified Beyond the Allowed Period

	CARRYING VALUES IN MILLION OF EUROS							
	2010	2011	2012	2013	2014	2015	2016	TOTAL
BNP Paribus								
AFS to LAR	-	6 312	-	-	-	-	-	6 312
Groupe Credit Agricole								
HFT into LAR	76	169	-	-	24	22	9	300
AFS into LAR	-	-	-	-	398	-	-	398
Royal Bank of Canada								
HFT into AFS	-	2 632	-	-	-	-	-	2 632
AFS into LAR	-	-	-	-	-	6 136	-	6 136
AGGREGATE								
HFT into LAR	76	169	-	-	24	22	9	300
HFT into AFS	-	2 632	-	-	-	-	-	2 632
AFS into LAR	-	6 312	-	-	398	6 136	-	12 846
TOTAL	**76**	**9 113**	**-**	**-**	**422**	**6 158**	**9**	**15 778**

An interesting observation was that, unlike the trend that was observed of trading assets forming the bulk of assets that were reclassified into LAR during the allowed period, reclassifications that occurred beyond 2009 demonstrate a different trajectory. Tables 11 above illustrates that G-SIBs reclassified more available-for-sale securities into the loans and receivables category (€ 12 846 million) followed by reclassifications of trading assets into AFS securities with a carrying value of € 2 632 million. On average, € 1 285 million of trading assets were reclassified into AFS and € 263 million was reclassified from trading assets into the AFS securities as highlighted by the figures enclosed in the red and blue ovals, respectively, in Table 9.

4.5 The Impact of the reclassifications

The majority of reclassifications were out of the trading category into LAR/HTM category which affects the net income. The average amount of reclassified financial assets over the period under review in respect of the average total assets prior to reclassification is 0.15 percent while the average in terms of the average book value before reclassification is 4.66 percent as reported in Table 12 below. Compared to Fiechter (2011:63)'s results (3.9 percent

and 131 percent, respectively), G-SIBs reclassifications were not very extensive. Despite this, the results demonstrate that the reclassifications were extensive in the early period of the introduction of the amendment to IAS 39 (between 1 July and 31 December 2008 and 2009). Table 12 illustrates an average amount of reclassified financial assets in respect of the average total assets prior to reclassification of 0.88 and 0.47 percent in 2008 and 2009 respectively, whereas the average amount in terms of the average book value before reclassification was 29.59 percent and 15.04 percent, respectively. The years beyond 2009 demonstrate quite insignificant results.

This study is mainly interested in the fair value losses that could have been recognised had the respective reclassifications not occurred. In the case of reclassifications of HFT securities, potential write-downs were avoided from resulting through profit or loss account whereas reclassifications of AFS securities barred write-downs from resulting in other comprehensive income. The total average change in net income and other comprehensive income illustrate a downward trajectory suggesting that large changes were experienced during the crisis period and thus, the amendment like IASB indicated, mostly provided some kind of relieve to the banks during times of economic downturns. Table 12 reports that between 1 July 2008 and 31 December 2008, G-SIBs were able to avoid an average fair value loss of € 1 038 million from occurring in the profit or loss account, representing an average of 5.02 percent of the 2008 reported net income.

In 2009 the average fair value losses avoided declined by 38.54 percent to € 638 million and Table 12 also illustrates a decline in the financial assets reclassified. The average fair value losses avoided in 2009 expressed in terms of the average reported net income for 2009 reported very strange results, a -224.81 percent. Basically, the average reported net income increased by 52.42 percent from what it could have been had there been no reclassification (Reported on Table 12 and the figure highlighted in red oval). These uncommon results were traceable to Groupe BPCE. The bank was able to prevent fair value losses amounting to € 1 757 million in 2009 from reclassifying financial instruments. If Groupe BPCE had not

reclassified, it could have reported a net loss of € 1 832 million, but instead it reported a net loss of just € 75 million as indicated by blue ovals in Table 14 on Appendix 1.

Table 12: The Average Impacts of Reclassifications from 2008 to 2017

AVERAGE ASSETS RECLASSIFIED											
Reclassification	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**TOTAL**
Average Reclassification	**13 058**	**6 203**	**8**	**911**	**-**	**-**	**42**	**616**	**1**	**-**	**20 839**
HFT into LAR/HTM	10 870	3 179	8	17	-	-	2	2	1	-	14 079
HFT into AFS	1 529	12	-	263	-	-	-	-	-	-	1 804
AFS into LAR	659	3 012	-	631	-	-	40	614	-	-	4 956
Reclassifications/Pre-reclassified Total Assets	0,88%	0,47%	0,00%	0,06%	-	-	0,00%	0,04%	0,00	-	0,15%
Reclassifications/Pre-reclassified Book value of Equity	29,59%	15,04%	0,01%	1,23%	-	-	0,08%	0,67%	0,00	-	4,66%
Average Change in Net Income	1 038	638	236	395	352	60	25	55	27	- 37	2 789
HFT into LAR/HTM	1 038	638	236	395	352	60	25	55	27	- 37	2 789
HFT into AFS	-	-	-	-	-	-	-	-	-	-	-
Average Change in OCI											
AFS into LAR	45	6	49	155	16	-9	-54	-10	-10	-8	**181**
Total Change in Net Income	1 038	638	236	395	352	60	25	55	27	- 37	**2 789**
Total Change in Equity	1 079	644	280	534	366	52	- 24	46	18	- 45	**2 952**
Average Reported Net Income	- 5 294	1 856	5 303	4 945	1 024	1 759	2 619	3 183	1 928	2 959	
Average Reported Regulatory Capital	45 807	47 388	56 385	56 406	54 975	57 453	59 712	62 131	66 086	67 653	
Average Reported Return on Equity	-10,42%	3,62%	9,57%	8,66%	0,95%	2,34%	4,53%	4,90%	1,81%	4,65%	
Average Pre-reclassification Net Income	- 6 333	1 218	5 067	4 550	672	1 699	2 594	3 129	1 901	2 996	
Average Pre-reclassification Total Regulatory Capital	44 728	46 744	56 105	55 871	54 609	57 402	59 736	62 086	66 067	67 697	
Average Pre-reclassification Return on Equity	-12,93%	2,53%	8,98%	7,89%	0,41%	2,17%	4,11%	4,46%	1,56%	4,26%	
Average change in net income in terms of reported Net Income	5,02%	**-224,81%**	11,55%	7,12%	29,27%	2,81%	-0,13%	-0,29%	4,47%	3,76%	
Average change in OCI in terms of reported regulatory Capital	2,17%	1,46%	0,57%	1,03%	0,11%	0,70%	-0,04%	0,08%	0,01%	-0,06%	
Increase/Decrease in Reported income as a result of reclassification	16,40%	**52,42%**	4,66%	8,69%	**52,39%**	3,52%	0,95%	1,75%	1,43%	-1,25%	
Increase/Decrease in Reported regulatory Capital as a result of reclassification	2,41%	1,38%	0,50%	0,96%	0,67%	0,09%	-0,04%	0,07%	0,03%	-0,07%	

Over the period under review, it is evident that the reclassifications assisted with improving the reported net income as illustrated by an increase in the net income as a result of reclassifying the financial instruments, except for just one year in 2017 were there was a slight deterioration of 1.25 person in the average reported net income. Between 1 July and 31 December 2008, the net income increased by 16.40 percent from what it could have been if there was no reclassification. This trend followed through the 10 years, with two surprisingly large increases experienced in 2009 and 2012 highlighted in figures enclosed in red and purple ovals in Table 12 above. The 2009 large increase was attributable to the large amount of losses avoided by Groupe BPCE while the 2012 impressive results were attributable to the Deutsche and Unicredit banks. Through reclassifying, Deutsche bank avoided reporting a net income of just € 37 million and instead recorded a net income of € 316 million, which is an improvement in net income of 756.74 percent as illustrated by the figures enclosed in orange ovals in Table 14 on Appendix 1. Similarly, Unicredit would have reported a net loss of € 515 million but instead recorded a net income of € 1 223 million, representing a 337.48 percent improvement in reported net income as illustrated by figures enclosed in green ovals in Table 14 on Appendix 1.

While a total average change in net income of € 2 789 million resulted from reclassifications of trading securities over a period of 10 years, the total average effect on other comprehensive income amounted to € 181 million due to reclassifications of AFS securities into the LAR category (Reported in Table 11). The average total change in regulatory capital amounted to € 2 952 million which is made up of the average change in net income due to reclassifications of trading assets into loans and receivables category as well as average change in OCI resulting from reclassifications of AFS securities into loans and receivables. The gains or losses resulting from reclassifications of trading assets into the available-for-sale securities do not affect equity since Basel 2 Accords stipulates that any equities that resulted from the revaluation of AFS securities do not qualify to be counted as regulatory capital. Therefore, the gains or losses resulting from the reclassification option only affect the net income but are excluded from equity. An analysis of all the G-SIBs that reclassified using this option, however, illustrates that no gains or losses were incurred as a result of reclassifying trading assets into AFS securities, as indicated by the average change in net income due to reclassifications from HFT into AFS in Table 12 above. On average, a slight improvement is

revealed on reported total regulatory capital with the largest increase of 2.41 percent registered between 1 July and 31 December 2008. The improved total capital increased at a decreasing rate and it was not as significant as the improved net income.

Comparing the pre-reclassification ROE against the reported ROE, a slight improvement was observed as well, especially in the first two years just like other variables. On average, G-SIBs would have reported an average ROE of -12.93 percent but following reclassifications, the ROE was improved to -10.42 percent. The margin on improved average reported ROE however, narrows from 2013 onwards. This is attributable to the slight improvement in the average reported regulatory capital. Taken together, these results indicate that the G-SIBs' concern was not mainly the regulatory capital but to improve reported earnings, especially during the crisis period. Therefore, it can be concluded that in the long run, the impact of reclassifications on the G-SIBs` ROE and regulatory capital were insignificant and thus G-SIBs did not reap much long-term benefits from the reclassifications. The benefits were only short-lived, during the crisis period.

4.6 Restatements of Reclassifications

In this section, the purpose is to explore the financial statements of the G-SIBs and find out if G-SIBs, like other non-G-SIBs used the option of restating figures of previously reclassified assets in order to reclassify assets in and out of the prohibited asset category, the designated as at fair value category. Prior to the amendment of IAS 39, all reclassifications in and out of the fair value options were prohibited, and even after the amendment of 2008 the IASB still prohibited reclassifications of assets that have been designated as at fair value upon initial recognition. If upon initial recognition a bank designated some securities as measured at fair value, such securities shall remain in that category and cannot be reclassified out of this category into any other category under any circumstances unless they are derecognised. The same applied to assets that were previously measured under other categories (AFS, HTM, LAR) cannot be reclassified into the designated as at fair value category.

The objective was motivated by De Jager (2010:134)'s results wherein he found some commercial bank, particularly SBoSA restating some comparative figures in order to get around the prohibition on reclassifications into and out of the 'designated as at fair value' category. His results illustrate that had SBoSA not restated the figures that were believed to have been erroneously reclassified in the prior years, there would have been a massive drop in the bank's deposits from customers. Therefore, this study explored the financial statements of the G-SIBs to track for the same use of restatements of the comparative figures. However, the results in Table 13 below illustrate that G-SIBs did not use such type of restatement to reclassify financial assets.

Table 13: The Types of Restatements Made by G-SIBs Between 2008 and 2017

Types of Restatements	Number of Banks	Percent
First time adoption or revision of accounting standards	10	100%
Ommissions and corrections of errors	3	30%
Change in classification of items	5	50%
Restating previous reclassifications	0	0%
Restating compensation packages of Management	1	10%
Restatement due to rights Issue	1	10%
Redefination of financial statement items	2	20%
To reflect change in accounting treatment of cross border exposure	1	10%
Mergers and/or acquisitions	3	30%
Change in reporting currency	1	10%
Merging of business units/operations and organisation restructuring	4	40%
Sale non-current assets being and discontinued operations	4	40%
Restatement of previously disclosed information about operating segments, products and services	7	70%

Table 13 above illustrates a summary of the different types of restatements observed from the G-SIBs financial statements. It illustrates that the most common type of restatement that was adopted by all G-SIBs was when there was an introduction of a new accounting standard or the existing standard was reviewed. During the period under review such standards that were introduced while others were reviewed included among others, IFRS 7, 10, 11, 12, 13, 15 and 19 as well as IAS 28, 29, 32, 36 and 39. This type of restatement was followed by 70 percent of G-SIBs restating previously disclosed information about the operating segments, products and services, the geographical areas in which the banks operate and the major customers of the banks in accordance with IFRS 8 – Operating Segments.

Since there were no restatements of reclassifications observed in G-SIBs the impacts of such restatements on the banks' net income, ROE and total capital could not be assessed. It can therefore, be concluded that G-SIBs did not use provisions of other existing accounting standards to get around the requirements of IAS 39, particularly to circumvent the prohibition to reclassify into and out of the designated as at fair value category. Apart from SBoSA, such behaviour was also observed in Nedbank Group where restatement occurred in which AFS securities were reclassified to the designated as at fair value category in 2009. In 2017 financial assets were also reclassified from LAR into designated as at fair value category and vice versa. Both reclassifications were made using the restatement option under the claim that these financial assets were erroneously classified upon initial recognition and hence were corrected in accordance with IAS 8.

In summary, the G-SIBs utilised both the retrospective and prospective forms of reclassifying financial assets and all the three types of reclassifications were used with majority of trading assets reclassified into loans and receivable category. 70 percent of banks reclassified within the allowed period which comprised of a bulk of assets reclassified during the period under review. The remaining 30 percent reclassified beyond 2009 with most of the AFS securities reclassified into LAR followed by trading assets reclassified into AFS securities unlike the trend observed under the allowed period. In terms of the effects of reclassifications, the results illustrated a great improvement on reported net income with a slight improvement on the regulatory capital and return on equity. However, the effects of the reclassifications were more prominent during the first two years of the amendment of IAS 39 with insignificant results beyond the period or in the long-term.

5. Discussion of Results

A case study type of research is often criticised for its lack of ability to generalise the results beyond the cases studied. However, the correct way of generalising the results of a case study is through the ability to develop a theory out of the results or linking the results to the already existing theory. This study also used a comparative or multiple case study approach to increase the confidence of results.

The results of the cases studied are consistent with the theoretical expectations that the IAS 39 amendment provided a tool that could be used for earnings and capital management. Table 5 and 6 illustrating the options used by the G-SIBs to reclassify financial assets either retrospectively or prospectively provides some evidence that G-SIBs' motive was to improve either earnings or regulatory capital figures. Considering that within the allowed period of reclassifications, there were 26 reclassifications that occurred, 15 of which were retrospective reclassifications indicates a motive behind the adoption of this form of reclassification. Retrospective reclassification enables banks to choose the assets for and date of reclassification based on the knowledge of the subsequent price performance. Simply, retrospective reclassifications provided a look-back option to the G-SIBs which enabled them to assess the fair value losses they were likely to incur when using the fair value method and determined how to prevent these losses by reclassifying to amortised cost at a specific date with known performance prices. Such an option allows for banks to avoid substantial losses and also to remedy the deteriorated earnings and capital figures. This explains why most reclassifications and in substantial amounts were carried out within the allowed period so that banks could utilise the option to choose a reclassification date that could alleviate substantial fair value losses, thereby improving their earnings that were deteriorated by the financial crisis.

In terms of the ability to choose the types of assets to reclassify based on knowledge of price performance, evidence illustrates that during the allowed period of reclassifications, which is the period around the financial crisis, substantial amounts of trading assets were reclassified compared to assets from other categories. Basically, trading assets were the most affected type of assets during the crisis for the simple reason that gains, or losses realised by the trading securities affect the net income. As a result, it makes more sense to prevent write-downs that affect the net income (hence, earnings) by shifting such securities to a category that values them at historical cost. It should be noted that earnings deterioration also affects capital as earnings are the best sources of income, hence, a deterioration in earnings results in a deterioration in capital also. Therefore, in a way, the type of this reclassification

(especially from HFT into LAR) killed two birds with one stone, as it improved both the earnings and equity, hence regulatory capital.

Evidence on Table 12 demonstrates that despite signs of earnings and capital management, earnings management was more prominent than capital management especially during the first two years of the introduction of the amendment. The results however, illustrated two outliers in 2009 and 2012 where there was a greater than normal improvement on the average reported net income during these two years. As alluded on the discussions below Table 12, these were attributable to Groupe BPCE in 2009 and the Deutsche and Unicredit bank in 2012, all of which realised substantial gains on the net income following reclassifications as illustrated under each respective bank in Table 14 on the Appendix. The individual G-SIBs provided on Table 14 also illustrates short-lived earnings management practice.

Beyond the allowed period of reclassifications, evidence presented indicated that more AFS securities were reclassified into LAR followed by the reclassifications from HFT into AFS securities. It can be argued that these two types of reclassifications are the types to be used to improve the equity of the banks. A reclassification from AFS securities into LAR prevent write-downs from being recognised in OCI, therefore, any fair value losses in the AFS reserves is transferred away from the OCI and hence, equity. Since the unrealised gains and losses recognised in AFS securities do not form part of regulatory capital in terms of Basel 2, a reclassification from HFT into AFS could be argued to be a way of shifting the losses to AFS reserves which are shielded from impacting capital negatively. The results on Table 12 however, do not support this argument except in 2011 and 2012 where a 0.96 and 0.67 percent improvement on reported regulatory capital were recorded, respectively. These results further illustrate that the reclassifications in accordance with the amended IAS 39 were not motivated by capital management motives but rather, earnings management.

Lastly, the study also established if G-SIBs used the option to restate figures of previously reclassified financial assets to circumvent the requirement on IAS 39 that prohibits the reclassification into and out of the designated as at fair value category. The results illustrate

that unlike the non-G-SIB SBoSA and Nedbank, systemic banks did not apply the technique. IAS 39 provides that once a financial instrument, on initial recognition is designated, the instrument cannot be reclassified out of this category and financial instruments that were initially measured under other categories cannot be reclassified into this category as well. The reason often provided for designating financial assets or liabilities upon initial recognition is that it eliminates or significantly reduces some accounting mismatch arising from measuring the instruments or recognising the gains and losses on such instruments on different bases (KPMG, nd:6). Restatements of comparative figures by nature provide entities with a look-back option. An entity can look at its figures and determine whether restating would benefit it to carry an instrument at either fair value or amortised cost. This technique is, however, currently not a worrisome issue because the introduction of IFRS 9 which requires financial instruments to be classified into only two categories depending on the entity's business model for managing the instrument and the instrument's contractual cashflows.

To conclude the discussion section, a linkage of the results to the theory illustrates that earnings management was more prominent in these reclassifications by G-SIBs, particularly during the allowed period of the reclassifications, in accordance with IAS 39. Slight capital management was observed during the financial crisis period. Therefore, it can also be concluded that the impacts of the 2008/2009 reclassifications on the G-SIBs were short-lived in terms of both earnings and capital management.

6. Limitations and Recommendations for Future Research and Conclusion

6.1 Limitations of the Study

The research study is subject to some caveats. The first limitation observable is that the sample of the study is limited as it focused on only large banks. Therefore, the results of the study cannot speak for all banks and should be interpreted with caution. The focus on a

limited sample of large banks or G-SIBs, however, is because their larger holdings of riskier assets highly exposed them to substantial fair value losses during the financial crisis than any other non-systemic bank. The results of the study also indicated that no G-SIBs restated previously reclassified financial assets and therefore, made it impossible to find any effects of such restatement. These results can, however, not be generalised for all banks because of the limited sample. A large sample may find that other banks other than the G-SIBs exhibited the same behaviour as SBoSA and Nedbank. Lastly, the results of the study adopted an aggregate focus, where the individual G-SIBs data was aggregated and averaged. The shortcoming with aggregating the data is depriving the results of the more detailed bank by bank analysis which could essentially be more insightful as individual banks possess unique characteristics.

6.2 Recommendations for Future Research

Several issues associated with the topic of this research study may be considered for future research. The study revealed that some of the G-SIBs that were eligible to reclassify financial assets under IAS 39 chose not to reclassify in accordance with the amendment and, had explicitly stated so in their annual reports. Considering the importance of G-SIBs to the entire economy, possible future research could consider finding out the reaction of investors and analysts to this partial adoption and application of the amendment to IAS 39.

Furthermore, when IASB introduced the amendment, part of the justifications for the amendment was to level the playing field for banks reporting under IFRS and those reporting under the US GAAP. Whether the objective has been achieved, and the extent to which banks that applied the amendment to IAS 39 benefitted compared to their counterparts who do not apply IFRS, remain to be determined. Therefore, an additional future research could focus on whether the application of the amendment to IAS 39 achieved the objectives of IASB and to what extent has the banks that applied the reclassifications amendment benefitted compared to their counterparts who do not apply IFRS.

Finally, accounting rules for financial instruments changed with the introduction of IFRS 9, which basically narrowed down the four financial assets categories under IAS 39 into just two

categories; one measured at amortised cost and the other at fair value. The main objective of the standard is to eliminate or reduce accounting complexity in measuring financial instruments through forming a single set of regulations for the accounting of financial instruments. The new standard has been introduced in parts with the final mandatory application for annual periods beginning January 1, 2018. Early adoption of the standard was also allowed. The introduction of this new standard, therefore, presents a great opportunity for future research in the accounting for financial instruments, to assess and analyse the impact this classification has on the net income and regulatory capital of commercial banks and whether there are any possible signs of earnings and regulatory capital management under the application of this new standard.

6.3 Conclusion

Following the political pressure from politicians and bankers on IASB to re-look the use of fair value accounting as a method for measuring the value of financial instruments, an amendment to IAS 39 was introduced on 13 October 2008 enabling banks to reclassify non-derivative financial assets from the fair value option to historical cost. Consequently, entities are able to avoid substantial unrealised fair value losses on financial instruments.

The purpose of this study is to explore how Global Systemically Important Banks (G-SIBs) applied the amendment to IAS 39 since 2008/2009. The study is guided by four main objectives in which the first two objectives explores how the G-SIBs applied the reclassifications during the allowed period, 2008/2009 and the period beyond 2009 when the application of the standard should have been stopped, respectively. The study further investigates if any G-SIBs used restatements to circumvent the requirements of the IAS 39 that does not allow reclassifications into and out of the 'designated as at fair value' category. Finally, the study explores the impacts of the reclassifications on the G-SIBs' ROE and total regulatory capital with the aim to find if G-SIBs reaped any long-term benefits from the reclassifications and whether any traces of earning and capital management exist in the way G-SIBs applied the amendment to IAS 39.

To achieve these objectives a comparative case study approach, which is qualitative in nature/scope was used with 10 G-SIBS forming part of the units of the analysis of the study. A comparative case-study approach was the most appropriate since the research question posed an exploratory type of question, but the study did not completely exclude the use of quantitative data. The study finds that the G-SIBs utilised both the retrospective and prospective forms of reclassifying financial assets and all the three types of reclassifications (HFT into LAR/HTM, HFT into AFS and AFS into LAR) were used with majority of trading assets reclassified into loans and receivable category. 70 percent of G-SIBs reclassified within the allowed period which comprised of the bulk of assets reclassified during the period under review. The remaining 30 percent that reclassified beyond 2009 was found to have reclassified more AFS securities into LAR followed by trading assets reclassified into AFS securities unlike the trend observed during the allowed period. The study further finds that G-SIBs did not use the concept of restating comparative figures to avoid the prohibition on reclassifications into and out of the 'designated as at fair value category' as found to have been used by other non-G-SIBs, particularly SBoSA, by De Jager (2010:134). In terms of the effects of reclassifications, the results illustrate a significant improvement on reported net income with a slight improvement on return on equity and regulatory capital. The impacts of the reclassifications are more prominent during the first two years of the amendment of IAS 39 with insignificant benefits reaped by G-SIBs in the long run. The results, however, suggest that G-SIBs used the amendment to IAS 39 as a tool for earnings and capital management especially during the first two years of the introduction of the amendment. Even though beyond 2009 the results illustrate slight improvement in net income, it can be concluded that earnings management behaviour was more prominent than the capital management behaviour on G-SIBs during the period under review.

This study contributes to the existing literature (Fiechter, 2011; Kholmy and Ernstberger, 2010; Paananen et al, 2012; Quagli and Ricciardi) on the reclassification choices of commercial banks by exploring how the G-SIBs applied the IAS 39 amendment during the crisis, which has been lacking in the literature. The study also contributes to the existing literature on the impacts of the reclassification choices by exploring if there are any long-term benefits reaped by G-SIBs from the reclassifications. A growing body of literature have examined the effects of the IAS 39 reclassifications on commercial banks that adopted the amended IAS 39 during

the highly volatile period with no attention provided to the long-term impact of the reclassifications.

Knowing the importance of G-SIBs to the economy, it may be relevant to find out the reaction of investors and analysts to the partial adoption of the reclassification amendment by the G-SIBs, as a recommendation for future research. Moreover, the introduction of IFRS 9 presents a great opportunity for future research to assess and analyse the impact the new financial asset classification has on the net income and regulatory capital and whether there are any possible signs of earnings and regulatory capital management under the use of this new standard.

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8. Appendix

Table 14: Summary of Reclassifications and their Impacts on Individual G-SIBs

Barclays											
Reclassification	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**TOTAL**
Reclassification	**3 640**	**7 272**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**10 912**
HFT into LAR/HTM	3 640	7 272	-	-	-	-	-	-	-	-	10 912
HFT into AFS	-	-	-	-	-	-	-	-	-	-	-
AFS into LAR	-	-	-	-	-	-	-	-	-	-	-
Reclassifications/Pre-reclassified Total Assets	0,19%	0,59%	-	-	-	-	-	-	-	-	
Reclassifications/Pre-reclassified Book value of Equity	8,03%	14,03%	-	-	-	-	-	-	-	-	
Total Change in Net Income	2	34	153	227	26	33	8	- 0	11	13	
HFT into LAR/HTM	2	34	153	227	26	33	8	- 0	11	13	
HFT into AFS	-	-	-	-	-	-	-	-	-	-	
Average Change in OCI											
AFS into LAR	-	-	-	-	-	-	-	-	-	-	
Total Change in Equity	2	34	153	227	26	33	8	- 0	11	13	
Reported Net Income	4 206	3 198	3 857	3 356	147	1 101	681	452	2 311	- 783	
Reported Regulatory Capital	46 716	56 479	57 707	55 486	53 412	56 421	53 455	48 285	58 712	58 870	
Reported Return on Equity	9,28%	6,17%	10,65%	6,30%	0,27%	2,07%	1,33%	0,93%	3,80%	-1,33%	
Pre-reclassification Net Income	4 204	3 164	3 704	3 129	121	1 069	672	452	2 300	- 796	
Pre-reclassification Total Regulatory Capital	46 715	56 446	57 554	55 260	53 386	56 388	53 447	48 285	58 701	58 857	
Pre-reclassification Return on Equity	9,28%	6,10%	10,27%	5,90%	0,23%	2,01%	1,31%	0,93%	3,78%	-1,35%	
Change in net income in terms of reported Net Income	0,04%	1,05%	3,97%	6,76%	17,81%	2,96%	1,24%	-0,01%	0,47%	-1,64%	
Change in OCI in terms of reported regulatory Capital	0,00%	0,06%	0,27%	0,41%	0,05%	0,06%	0,02%	0,00%	0,02%	0,02%	
Increase/Decrease in Reported income as a result of reclassification	0,04%	1,06%	4,13%	7,24%	21,67%	3,05%	1,26%	-0,01%	0,47%	-1,62%	
Increase/Decrease in Reported regulatory Capital as a result of reclassification	0,00%	0,06%	0,27%	0,41%	0,05%	0,06%	0,02%	0,00%	0,02%	0,02%	

BNP Paribus

Reclassification	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	TOTAL
Reclassification	**7 844**	**3 918**	**-**	**6 312**	**-**	**-**	**-**	**-**	**-**	**-**	**18 074**
HFT into LAR/HTM	7 077	2 760	-	-	-	-	-	-	-	-	9 837
HFT into AFS	767	-	-	-	-	-	-	-	-	-	767
AFS into LAR	-	1 158	-	6 312	-	-	-	-	-	-	7 470
Reclassifications/Pre-reclassified Total Assets	0,38%	0,19%	-	0,32%	-	-	-	-	-	-	
Reclassifications/Pre-reclassified Book value of Equity	13,38%	4,87%	-	7,40%	-	-	-	-	-	-	
Total Change in Net Income	**362**	**16**	**-** **27**	**109**	**30**	**18**	**1**	**5**	**15**	**-** **18**	
HFT into LAR/HTM	362	16	- 27	109	30	18	1	5	15	- 18	
HFT into AFS	-	-	-	-	-	-	-	-	-	-	
Average Change in OCI											
AFS into LAR	-	- 133,39	- 49,44	242,39	- 238,28	- 190,71	- 313,33	- 175,41	- 122,36	- 81,08	
Total Change in Equity	362	- 118	- 77	352	- 208	- 172	- 312	- 171	- 107	- 99	
Reported Net Income	3 452	6 474	9 164	6 894	7 318	5 424	507	7 044	8 115	8 207	
Reported Regulatory Capital	59 449	88 414	88 324	85 962	85 452	80 048	72 472	82 063	90 868	94 039	
Reported Return on Equity	5,85%	8,06%	10,70%	8,05%	7,78%	5,96%	0,54%	7,04%	7,71%	7,66%	
Pre-reclassification Net Income	3 090	6 458	9 191	6 785	7 288	5 406	506	7 039	8 100	8 225	
Pre-reclassification Total Regulatory Capital	59 087	88 532	88 401	85 610	85 660	80 220	72 784	82 234	90 975	94 138	
Pre-reclassification Return on Equity	5,27%	8,03%	10,72%	7,96%	7,73%	5,93%	0,54%	7,02%	7,69%	7,66%	
Change in net income in terms of reported Net Income	10,48%	0,24%	-0,30%	1,59%	0,41%	0,34%	0,26%	0,07%	0,18%	-0,22%	
Change in OCI in terms of reported regulatory Capital	0,61%	-0,13%	-0,09%	0,41%	-0,24%	-0,22%	-0,43%	-0,21%	-0,12%	-0,11%	
Increase/Decrease in Reported income as a result of reclassification	11,70%	0,24%	-0,30%	1,61%	0,42%	0,34%	0,26%	0,07%	0,18%	-0,22%	
Increase/Decrease in Reported regulatory Capital as a result of reclassification	0,61%	-0,13%	-0,09%	0,41%	-0,24%	-0,21%	-0,43%	-0,21%	-0,12%	-0,11%	

Deutsche

Reclassification	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	TOTAL
Reclassification	**18 486**	**20 399**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**38 885**
HFT into LAR/HTM	18 486	20 399	-	-	-	-	-	-	-	-	38 885
HFT into AFS	-	-	-	-	-	-	-	-	-	-	-
AFS into LAR	-	-	-	-	-	-	-	-	-	-	-
Reclassifications/Pre-reclassified Total Assets	0,84%	1,36%	-	-	-	-	-	-	-	-	
Reclassifications/Pre-reclassified Book value of Equity	63,15%	56,28%	-	-	-	-	-	-	-	-	
Total Change in Net Income	**2 640**	**1 723**	**879**	**1 047**	**279**	**57**	**-** **268**	**115**	**-** **368**	**-** **296**	
HFT into LAR/HTM	2 640	1 723	879	1 047	279	57	- 268	115	- 368	- 296	
HFT into AFS	-	-	-	-	-	-	-	-	-	-	
Average Change in OCI											
AFS into LAR	-	-	-	-	-	-	-	-	-	-	
Total Change in Equity	2 640	1 723	879	1 047	279	57	- 268	115	- 368	- 296	
Reported Net Income	- 3 896	4 958	2 330	4 326	316	681	1 691	- 6 772	- 1 356	- 735	
Reported Regulatory Capital	37 396	37 929	48 688	55 226	57 015	55 464	63 072	60 976	59 502	63 250	
Reported Return on Equity	-12,21%	13,06%	4,63%	7,91%	0,58%	1,24%	2,31%	-10,80%	-2,09%	-1,08%	
Pre-reclassification Net Income	- 6 536	3 235	1 451	3 279	37	624	1 959	- 6 887	- 988	- 439	
Pre-reclassification Total Regulatory Capital	34 756	36 206	47 809	54 179	56 736	55 407	63 340	60 861	59 870	63 546	
Pre-reclassification Return on Equity	-22,33%	8,92%	2,93%	6,12%	0,07%	1,14%	2,67%	-11,01%	-1,52%	-0,64%	
Change in net income in terms of reported Net Income	-67,77%	34,76%	37,74%	24,19%	88,33%	8,39%	-15,86%	-1,69%	27,16%	40,30%	
Change in OCI in terms of reported regulatory Capital	7,06%	4,54%	1,81%	1,90%	0,49%	0,10%	-0,43%	0,19%	-0,62%	-0,47%	
Increase/Decrease in Reported income as a result of reclassification	40,39%	53,27%	60,61%	31,91%	756,74%	9,15%	-13,69%	1,67%	-37,29%	-67,51%	
Increase/Decrease in Reported regulatory Capital as a result of reclassification	7,60%	4,76%	1,84%	1,93%	0,49%	0,10%	-0,42%	0,19%	-0,62%	-0,47%	

Group BPCE

Reclassification	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	TOTAL
Reclassification	**4 142**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4 142**
HFT into LAR/HTM	3 153	-	-	-	-	-	-	-	-	-	3 153
HFT into AFS	-	-	-	-	-	-	-	-	-	-	-
AFS into LAR	989	-	-	-	-	-	-	-	-	-	989
Reclassifications/Pre-reclassified Total Assets	0,36%	-	-	-	-	-	-	-	-	-	
Reclassifications/Pre-reclassified Book value of Equity	11,79%	-	-	-	-	-	-	-	-	-	
Total Change in Net Income	**91**	**1 757**	**525**	**1 108**	**1 177**	**458**	**650**	**522**	**711**	**42**	
HFT into LAR/HTM	91	1 757	525	1 108	1 177	458	650	522	711	42	
HFT into AFS	-	-	-	-	-	-	-	-	-	-	
Average Change in OCI											
AFS into LAR	-	-	-	-	-	-	-	-	-	-	
Total Change in Equity	91	1 757	525	1 108	1 177	458	650	522	711	42	
Reported Net Income	(2 696)	(75)	4 033	3 023	2 377	2 990	3 366	3 800	4 488	3 705	
Reported Regulatory Capital	17 666	44 853	46 974	44 907	47 703	53 640	60 537	65 791	72 300	74 047	
Reported Return on Equity	-7,66%	-0,16%	7,85%	6,19%	4,37%	5,14%	5,37%	5,83%	6,49%	5,20%	
Pre-reclassification Net Income	(2 787)	(1 832)	3 508	1 915	1 200	2 532	2 716	3 278	3 778	3 663	
Pre-reclassification Total Regulatory Capital	17 575	43 096	46 449	43 799	46 526	53 182	59 887	65 269	71 590	74 005	
Pre-reclassification Return on Equity	-7,93%	-3,98%	6,90%	4,01%	2,26%	4,39%	4,38%	5,07%	5,52%	5,15%	
Change in net income in terms of reported Net Income	-3,36%	-2342,26%	13,02%	36,66%	49,53%	15,30%	19,33%	13,73%	15,83%	1,14%	
Change in OCI in terms of reported regulatory Capital	0,51%	3,92%	1,12%	2,47%	2,47%	0,85%	1,07%	0,79%	0,98%	0,06%	
Increase/Decrease in Reported income as a result of reclassification	3,25%	95,91%	14,97%	57,88%	98,15%	18,07%	23,95%	15,92%	18,81%	1,15%	
Increase/Decrease in Reported regulatory Capital as a result of reclassification	0,52%	4,08%	1,13%	2,53%	2,53%	0,86%	1,09%	0,80%	0,99%	0,06%	

Groupe Credit Agricole

Reclassification	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	TOTAL
Reclassification	**12 126**	**454**	**76**	**169**	**-**	**-**	**422**	**22**	**9**	**-**	**13 278**
HFT into LAR/HTM	12 126	454	76	169	-	-	24	22	9	-	12 880
HFT into AFS	-	-	-	-	-	-	-	-	-	-	-
AFS into LAR	-	-	-	-	-	-	398	-	-	-	398
Reclassifications/Pre-reclassified Total Assets	0,73%	0,03%	0,00%	0,01%	-	-	0,03%	0,001%	0,001%	-	
Reclassifications/Pre-reclassified Book value of Equity	26,09%	0,88%	0,15%	0,34%	0,00%	0,00%	0,75%	0,04%	0,01%	-	
Total Change in Net Income	**853**	**657**	**414**	**188**	**162**	**29**	**32**	**8**	**7**	**4**	
HFT into LAR/HTM	853	657	414	188	162	29	32	8	7	4	
HFT into AFS	-	-	-	-	-	-	-	-	-	-	
Average Change in OCI											
AFS into LAR	-	-	-	-	-	-	-	-	-	-	
Total Change in Equity	853	657	414	188	162	29	32	8	7	4	
Reported Net Income	1 266	1 446	1 752	(1 198)	(6 431)	2 885	2 760	3 971	3 955	4 217	
Reported Regulatory Capital	33 400	31 800	47 400	44 800	38 588	47 341	47 267	54 704	55 994	51 688	
Reported Return on Equity	2,67%	2,78%	3,36%	-2,43%	-14,08%	6,32%	4,91%	6,68%	6,19%	6,52%	
Pre-reclassification Net Income	413	789	1 338	(1 386)	(6 593)	2 856	2 728	3 963	3 948	4 213	
Pre-reclassification Total Regulatory Capital	32 547	31 143	46 986	44 612	38 426	47 312	47 235	54 696	55 987	51 684	
Pre-reclassification Return on Equity	0,89%	1,54%	2,59%	-2,82%	-14,48%	6,26%	4,86%	6,67%	6,18%	6,51%	
Change in net income in terms of reported Net Income	67,35%	45,43%	23,63%	-15,70%	-2,52%	1,01%	1,16%	0,20%	0,18%	0,09%	
Change in OCI in terms of reported regulatory Capital	2,55%	2,07%	0,87%	0,42%	0,42%	0,06%	0,07%	0,01%	0,01%	0,01%	
Increase/Decrease in Reported income as a result of reclassification	206,31%	83,27%	30,95%	13,57%	2,46%	1,02%	1,17%	0,20%	0,18%	0,09%	
Increase/Decrease in Reported regulatory Capital as a result of reclassification	2,62%	2,11%	0,88%	0,42%	0,42%	0,06%	0,07%	0,01%	0,01%	0,01%	

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Reclassification	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	TOTAL
Reclassification	**1 594**	**28 963**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**30 557**
HFT into LAR/HTM	-	-	-	-	-	-	-	-	-	-	-
HFT into AFS	-	-	-	-	-	-	-	-	-	-	-
AFS into LAR	1 594	28 963	-	-	-	-	-	-	-	-	30 557
Reclassifications/Pre-reclassified Total Assets	0,12%	2,49%	-	-	-	-	-	-	-	-	
Reclassifications/Pre-reclassified Book value of Equity	5,50%	72,88%	-	-	-	-	-	-	-	-	
Total Change in Net Income	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	
HFT into LAR/HTM	-	-	-	-	-	-	-	-	-	-	
HFT into AFS	-	-	-	-	-	-	-	-	-	-	
Average Change in OCI											
AFS into LAR	(40)	39	444	1 050	221	135	(140)	76	48	31	
Total Change in Equity	(40)	39	444	1 050	221	135	(140)	76	48	31	
Reported Net Income	(766)	(1 124)	2 916	5 868	4 523	3 810	1 440	4 413	4 726	4 987	
Reported Regulatory Capital	43 889	44 731	49 145	47 124	47 270	46 496	46 713	56 034	61 871	59 298	
Reported Return on Equity	-5,14%	-4,62%	7,82%	12,71%	7,68%	7,83%	6,24%	12,73%	11,71%	14,22%	
Pre-reclassification Net Income	(766)	(1 124)	2 916	5 868	4 523	3 810	1 440	4 413	4 726	4 987	
Pre-reclassification Total Regulatory Capital	43 929	44 692	48 701	46 074	47 049	46 361	46 853	55 958	61 823	59 267	
Pre-reclassification Return on Equity	-2,64%	-2,83%	6,31%	11,79%	8,23%	7,18%	2,42%	9,12%	9,39%	9,76%	
Change in net income in terms of reported Net Income	-	-	-	-	-	-	-	-	-	-	
Change in OCI in terms of reported regulatory Capital	-0,09%	0,09%	0,90%	2,23%	0,47%	0,29%	-0,30%	0,14%	0,08%	0,05%	
Increase/Decrease in Reported income as a result of reclassification	-	-	-	-	-	-	-	-	-	-	
Increase/Decrease in Reported regulatory Capital as a result of reclassification	-0,09%	0,09%	0,91%	2,28%	0,47%	0,29%	-0,30%	0,14%	0,08%	0,05%	

Stanchart

Reclassification	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	TOTAL
Reclassification	**12 225**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**12 225**
HFT into LAR/HTM	4 469	-	-	-	-	-	-	-	-	-	4 469
HFT into AFS	4 431	-	-	-	-	-	-	-	-	-	4 431
AFS into LAR	3 324	-	-	-	-	-	-	-	-	-	3 324
Reclassifications/Pre-reclassified Total Assets	2,01%	-	-	-	-	-	-	-	-	-	
Reclassifications/Pre-reclassified Book value of Equity	39,49%	-	-	-	-	-	-	-	-	-	
Total Change in Net Income	**319**	**154**	**69**	**106**	**17**	**4**	**3**	**(2)**	**-**	**-**	
HFT into LAR/HTM	319	154	69	106	17	4	3	(2)	-	-	
HFT into AFS	-	-	-	-	-	-	-	-	-	-	
Average Change in OCI											
AFS into LAR	439	137	36	61	11	(59)	(31)	2	(3)	(5)	
Total Change in Equity	759	291	105	167	28	(55)	(27)	1	(3)	(5)	
Reported Net Income	4 895	4 837	5 842	6 863	6 407	5 578	3 587	2 436	(258)	1 430	
Reported Regulatory Capital	43 094	49 054	59 637	66 092	67 714	74 859	75 718	65 463	77 514	66 281	
Reported Return on Equity	15,43%	12,09%	11,23%	12,80%	10,54%	8,67%	6,34%	4,62%	-0,43%	2,30%	
Pre-reclassification Net Income	4 575	4 683	5 773	6 756	6 390	5 574	3 584	2 437	(258)	1 430	
Pre-reclassification Total Regulatory Capital	42 336	48 763	59 532	65 925	67 686	74 915	75 745	65 462	77 517	66 286	
Pre-reclassification Return on Equity	14,78%	11,79%	11,12%	12,64%	10,52%	8,65%	6,33%	4,63%	-0,43%	2,30%	
Change in net income in terms of reported Net Income	6,52%	3,18%	1,18%	1,55%	0,26%	0,07%	0,09%	-0,07%	0,00%	0,00%	
Change in OCI in terms of reported regulatory Capital	1,76%	0,59%	0,18%	0,25%	0,04%	-0,07%	-0,04%	0,00%	0,00%	-0,01%	
Increase/Decrease in Reported income as a result of reclassification	6,98%	3,29%	1,19%	1,57%	0,26%	0,07%	0,09%	-0,07%	-	-	
Increase/Decrease in Reported regulatory Capital as a result of reclassification	1,79%	0,60%	0,18%	0,25%	0,04%	-0,07%	-0,04%	0,00%	0,00%	-0,01%	

UBS											
Reclassification	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**TOTAL**
Reclassification	**40 294**	**906**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**41 200**
HFT into LAR/HTM	40 294	906	-	-	-	-	-	-	-	-	41 200
HFT into AFS	-	-	-	-	-	-	-	-	-	-	-
AFS into LAR	-	-	-	-	-	-	-	-	-	-	-
Reclassifications/Pre-reclassified Total Assets	1,34%	0,05%	-	-	-	-	-	-	-	-	
Reclassifications/Pre-reclassified Book value of Equity	71,16%	1,28%	-	-	-	-	-	-	-	-	
Total Change in Net Income	**3 903**	**1 125**	**(291)**	**409**	**90**	**-**	**-**	**-**	**-**	**-**	
HFT into LAR/HTM	3 903	1 125	(291)	409	90	-	-	-	-	-	
HFT into AFS	-	-	-	-	-	-	-	-	-	-	
Average Change in OCI											
AFS into LAR	-	-	-	-	-	-	-	-	-	-	
Total Change in Equity	3 903	1 125	(291)	409	90	-	-	-	-	-	
Reported Net Income	(32 529)	(3 154)	10 682	5 420	(2 718)	4 161	4 421	6 813	3 582	1 253	
Reported Regulatory Capital	71 920	61 807	55 851	51 131	35 360	42 551	49 558	50 608	43 431	46 552	
Reported Return on Equity	-53,74%	-4,37%	17,51%	8,42%	-4,58%	6,79%	6,77%	10,92%	6,15%	2,09%	
Pre-reclassification Net Income	(36 431)	(4 279)	10 973	5 012	(2 807)	4 161	4 421	6 813	3 582	1 253	
Pre-reclassification Total Regulatory Capital	68 017	60 682	56 142	50 722	35 271	42 551	49 558	50 608	43 431	46 552	
Pre-reclassification Return on Equity	-64,34%	-6,03%	17,90%	7,83%	-4,74%	6,79%	6,77%	10,92%	6,15%	2,09%	
Change in net income in terms of reported Net Income	-12,00%	-35,68%	-2,72%	7,54%	-3,29%	-	-	-	-	-	
Change in OCI in terms of reported regulatory Capital	5,43%	1,82%	-0,52%	0,80%	0,25%	-	-	-	-	-	
Increase/Decrease in Reported income as a result of reclassification	10,71%	26,29%	-2,65%	8,15%	3,19%	-	-	-	-	-	
Increase/Decrease in Reported regulatory Capital as a result of reclassification	5,74%	1,85%	-0,52%	0,81%	0,25%	-	-	-	-	-	

Unicredit

Reclassification	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	TOTAL
Reclassification	**20 139**	**118**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**20 257**
HFT into LAR/HTM	19 458	-	-	-	-	-	-	-	-	-	19 458
HFT into AFS	-	118	-	-	-	-	-	-	-	-	118
AFS into LAR	681	-	-	-	-	-	-	-	-	-	681
Reclassifications/Pre-reclassified Total Assets	1,93%	0,01%	-	-	-	-	-	-	-	-	
Reclassifications/Pre-reclassified Book value of Equity	35,95%	0,19%	-	-	-	-	-	-	-	-	
Total Change in Net Income	**2 215**	**919**	**641**	**758**	**1 738**	**-**	**(180)**	**(101)**	**(103)**	**(119)**	
HFT into LAR/HTM	2 215	919	641	758	1 738	-	(180)	(101)	(103)	(119)	
HFT into AFS	-	-	-	-	-	-	-	-	-	-	
Average Change in OCI											
AFS into LAR	5	15	11	39	150	33	1	1	1	-	
Total Change in Equity	2 220	933	651	797	1 889	33	(180)	(101)	(102)	(119)	
Reported Net Income	4 529	2 035	1 645	8 842	1 223	(13 583)	2 388	669	(11 326)	5 786	
Reported Regulatory Capital	57 542	58 257	57 655	56 973	62 018	57 651	54 857	55 579	45 150	64 454	
Reported Return on Equity	7,78%	3,24%	2,43%	16,14%	1,87%	-27,14%	4,52%	1,25%	-26,22%	9,61%	
Pre-reclassification Net Income	2 314	1 116	1 004	8 084	(515)	(13 583)	2 568	770	(11 223)	5 905	
Pre-reclassification Total Regulatory Capital	55 322	57 324	57 004	56 176	60 129	57 618	55 037	55 680	45 252	64 573	
Pre-reclassification Return on Equity	4,13%	1,80%	1,50%	14,97%	-0,81%	-27,15%	4,84%	1,44%	-25,92%	9,79%	
Change in net income in terms of reported Net Income	48,90%	45,15%	38,94%	8,57%	142,14%	-	-7,55%	-15,14%	0,91%	-2,06%	
Change in OCI in terms of reported regulatory Capital	3,86%	1,60%	1,13%	1,40%	3,05%	0,06%	-0,33%	-0,18%	-0,23%	-0,18%	
Increase/Decrease in Reported income as a result of reclassification	95,71%	82,32%	63,76%	9,38%	337,31%	-	-7,02%	-13,15%	0,01	- 0,02	
Increase/Decrease in Reported regulatory Capital as a result of reclassification	4,01%	1,63%	1,14%	1,42%	3,14%	0,06%	-0,33%	-0,18%	-0,23%	-0,18%	

Royal Bank of Canada

Reclassification	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	TOTAL
Reclassification	**10 088**	**-**	**-**	**2 632**	**-**	**-**	**-**	**6 136**	**-**	**-**	**18 856**
HFT into LAR/HTM	-	-	-	-	-	-	-	-	-	-	-
HFT into AFS	10 088	-	-	2 632	-	-	-	-	-	-	12 720
AFS into LAR	-	-	-	-	-	-	-	6 136	-	-	6 136
Reclassifications/Pre-reclassified Total Assets	0,90%	-	-	0,24%	-	-	-	0,40%	-	-	0,15%
Reclassifications/Pre-reclassified Book value of Equity	21,34%	-	-	4,58%	-	-	-	6,67%	-	-	3,26%
Total Change in Net Income	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
HFT into LAR/HTM	-	-	-	-	-	-	-	-	-	-	-
HFT into AFS	-	-	-	-	-	-	-	-	-	-	-
Average Change in OCI											
AFS into LAR	-	-	-	-	-	-	-	6	(11)	(16)	(21)
Total Change in Equity	-	-	-	-	-	-	-	6	(11)	(16)	(21)
Reported Net Income	(31 403)	(33)	10 813	6 053	(2 925)	4 541	5 347	9 007	5 047	1 518	
Reported Regulatory Capital	47 000	556	52 468	56 355	55 220	60 062	73 472	81 811	95 515	98 049	
Reported Return on Equity	-66,43%	-0,06%	19,53%	10,53%	-4,91%	6,48%	6,95%	9,79%	4,79%	1,36%	
Pre-reclassification Net Income	(31 403)	(33)	10 813	6 053	(2 925)	4 541	5 347	9 007	5 047	1 518	
Pre-reclassification Total Regulatory Capital	47 000	556	52 468	56 355	55 220	60 062	73 472	81 805	95 525	98 065	
Pre-reclassification Return on Equity	-66,43%	-0,06%	19,53%	10,53%	-4,91%	6,48%	6,95%	9,79%	4,79%	1,36%	
Change in net income in terms of reported Net Income	-	-	-	-	-	-	-	-	-	-	
Change in OCI in terms of reported regulatory Capital	-	-	-	-	-	-	-	0,01%	-0,01%	-0,02%	
Increase/Decrease in Reported income as a result of reclassification	-	-	-	-	-	-	-	-	-	-	
Increase/Decrease in Reported regulatory Capital as a result of reclassification	-	-	-	-	-	-	-	0,01%	-0,01%	-0,02%	